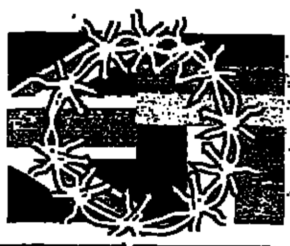
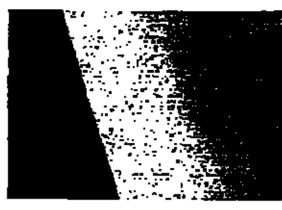
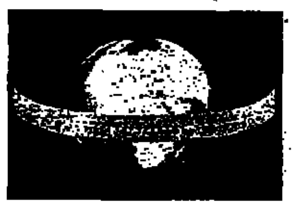
FINANCIAL TIMES



Euro-defence
Jaw-jaw a prelude to overhaul
Page 15



Dateline: Brussels
Belgium hopeless but not serious
Page 8



Media futures
First steps to a global info-society
Page 10

Management
Germany: bother in the boardroom
Page 9

World Business Newspaper MONDAY FEBRUARY 27 1995 D8523A

UK puts pressure on Sinn Féin over IRA arms stockpile

The British government toughened its stance on the inclusion of Sinn Féin in the Northern Ireland peace process by warning that the IRA would first have to make "substantial progress" in decommissioning its weapons. Northern Ireland secretary Sir Patrick Mayhew (left) said Sinn Féin had yet to make clear its commitment to democracy. Sinn Féin leader Gerry Adams accused the government of trying to discriminate against and marginalise the nationalist people in the province. Page 7

US opens telecoms market to foreign investors

Investment barriers which have prevented foreign groups taking more than a limited stake in US telecommunications companies will be lifted this year, US vice-president Al Gore said. But the opportunity would be open only to countries with telecoms regimes judged to be as liberal as that of the US. Page 16

UK urges firmer defence links

Roger Freeman, Britain's defence procurement minister, suggested a European project office could be established to run large international weapons programmes. If successful, it could evolve into a European defence procurement agency. The suggestion is a counter to plans by the French and German defence ministries for a joint procurement agency. Page 16

France and US play down spying row: France and the US sought to defuse a row over alleged CIA spies as French interior minister Charles Pasqua came under increasing attack for fuelling the dispute. Page 4

Attitudes harden in German pay dispute: The biggest strike in Germany's engineering industry for 11 years entered its fourth day with both sides in the pay dispute adamant they would not give in. Page 4

Curbs urged on EU federalism: A pan-European group of centre-right politicians will today launch a radical manifesto against further federalism in Europe, calling for a reduction in the powers of European Union institutions. Page 7

Canada plans tough budget: Canadian finance minister Paul Martin will today try to calm nervousness about Ottawa's debt by unveiling the toughest federal budget in many years. Page 6

Loopholes worsen drugs problem: The failure of Austria, Belgium, Canada, Luxembourg, New Zealand and Switzerland to accept an international drugs treaty is partly to blame for the rise in a new form of drug smuggling, a United Nations report says. Page 6

Pentos in last-ditch rescue talks: Troubled UK retailer Pentos will meet two venture capital companies today in a last-ditch attempt to secure extra financing and dissuade its bankers from calling in the receivers. Page 17

BZ chief sees end to UBS row: Martin Ebner, head of the BZ financial group, which is contesting the governance of Union Bank of Switzerland, believes an amicable resolution of the row between his group and the UBS board is possible. Page 17

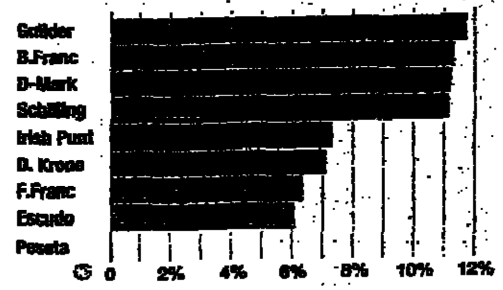
Kia Motors in the red: Kia Motors, South Korea's second largest vehicle builder, recorded a 1994 loss of Won69.6bn ($88.5m) as a result of increased investment and marketing costs. Page 19

Indonesia admits killings were mistake: Indonesia admitted that six people killed by its soldiers in the politically disputed territory of East Timor last month were victims of mistaken identity. Page 5

Runaway boy safe: Peter Kerry, 14, from Harrow, north London, missing for five days after running away to Malaysia using his father's passport and credit card, was found safe near the Thai border.

European Monetary System: The continuing strength of the D-Mark is putting pressure on the EMS grid. The peseta is within sight of the lower limit of its 15 per cent fluctuation band against the guilder. The franc is also close to a historic low against the D-Mark, as are sterling and the dollar, which are outside the grid. Ministers rally to defend lira, Page 16; Currencies, Page 27

EMS: Grid February 24, 1995



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

ustria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
ahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
elgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30
ulgaria	Lw100.00	Iceland	IKr220	Nigeria	Naira60	Slovak Rp	KSL80
yprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
zech Rp	CZK55	Israel	Shk7.80	Oman	OR1.50	Spain	Pta225
enmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
gypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
stonia	EKr 30	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00
inland	FM15	Kuwait	Fils625	Portugal (mainland)	Es230	Tunisia	Din1.500
rance	FFr10.50	Lebanon	US$1.50			Turkey	L40,000
ermany	DM3.80	Lux	LFr70			UAE	Dh12.00

Unauthorised derivatives trading causes £600m loss at UK's oldest merchant bank

Last-ditch rescue plan sought for Barings

By John Gapper and James Blitz in London

Mr Eddie George, the governor of the Bank of England, was last night trying to assemble a rescue package for Barings, the UK's oldest merchant banking group, after a Singapore-based trader in financial derivatives lost it at least £600m.

Mr George was in last-ditch meetings with senior executives from UK clearing banks and other banks. He was trying to stop Barings' losses triggering falls in financial markets before Asia-Pacific markets started opening at 9pm London time.

Bank of England officials feared global markets could be destabilised by the prospect of Barings defaulting, on what appear to have been unauthorised trades. The trader could not be located by the bank after losses were discovered.

The loss would wipe out Barings' total capital of £541m ($860m), including the £336m of non-voting equity held by the family's Baring Foundation charitable trust. Corporate bonds with a £60m market value may be suspended in London today.

Some bankers said the most likely outcome would be a rescue by a consortium of banks which could provide funds to close the open derivative positions. This could be followed by an orderly sale of Barings' operations.

However, Barings was also thought willing to be taken over immediately by a single buyer. Among European banks which were regarded as interested were National Westminster Bank, the Dutch bank ABN Amro, and Swiss Bank Corporation.

The crisis was caused by a trader who exposed Barings to falls in the Nikkei 225 index by buying futures contracts. It was estimated that a further 1,000 point fall in the index would expose it to an additional £150m loss.

The bank last intervened on this scale to rescue Johnson Matthey Bankers in 1984. The crisis echoes a similar one at Barings in 1890 when it was over-extended in Argentina, and the Bank of England had to give it support.

The trader worked for Baring Brothers, the merchant banking operation, but dealt through Baring Securities. He is thought to be British, and to be an experienced trader who had worked for the bank in Singapore for several years. The trader bought futures positions on the Nikkei 225 index – bets on the level of the index on set dates in the future. He is thought to have financed cash calls on them as they fell in value by selling further option contracts.

The contracts were bought through the Simex derivatives exchange in Singapore. Bankers said that to keep the details secret from Barings, the trader would probably have needed to have assistance.

The Bank of England, which is the main supervisor for Barings' banking operations around the world, stepped in to try to avert a catastrophe on financial markets after being informed of Barings' potential losses on Friday.

Mr George and Mr Brian Quinn, the bank's executive director for financial stability, were among officials working on the rescue package. They wanted to close Barings' open derivative positions before Asian markets opened.

Barings' four main assets are: its corporate finance arm, Baring Brothers; its fund management arm, Baring Asset Management; its 40 per cent stake in the US investment bank Dillon Read, and Baring Securities, its broking arm.

There could be widespread interest from UK banks including Barclays and National Westminster, as well as from other European banks, in acquiring the corporate finance arm which has a long-established corporate client list.

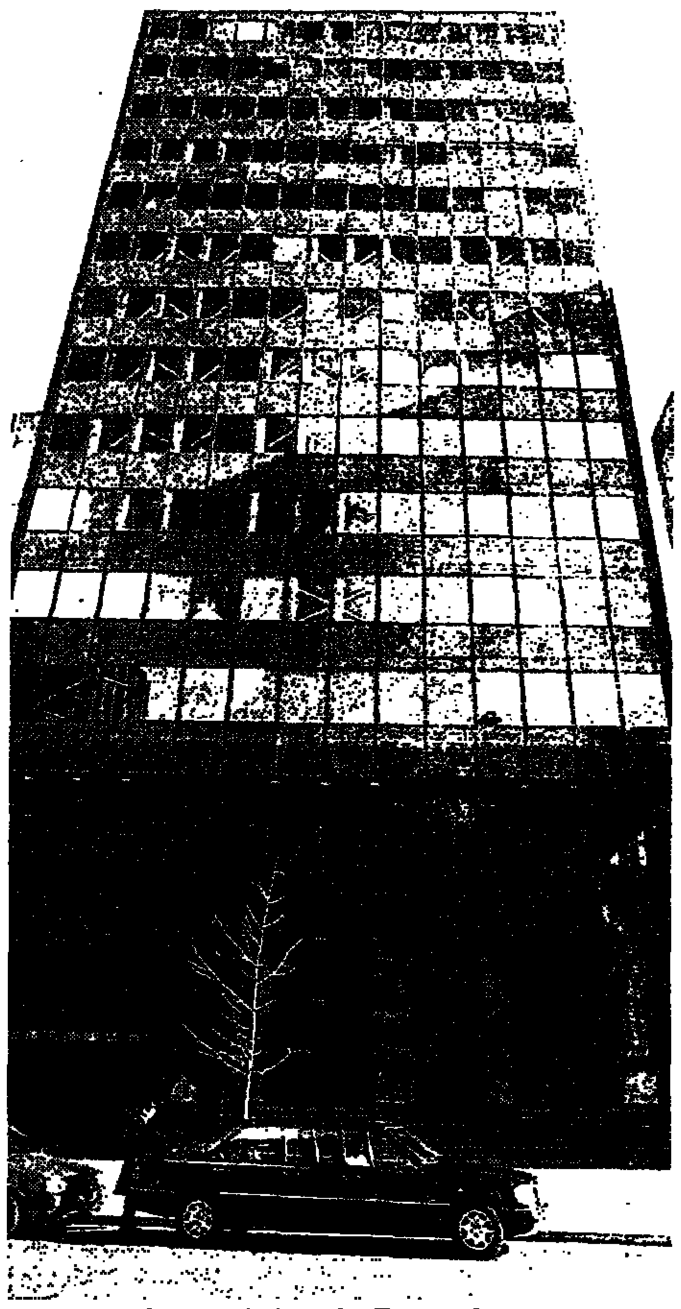
Conservative and Labour politicians yesterday said they were concerned about the losses. They said that the incident had exposed dangers in the growth of derivatives, which are to be investigated by the a parliamentary treasury committee. British government ministers were being kept informed.

Mr Alistair Darling, the opposition Labour party's City spokesman, said the Bank of England, and supervisors in other countries, should "urgently review the supervisory regime" to ensure banks had safeguards in place.

- Early February: Barings derivatives trader in Singapore takes a huge gamble in futures contracts on movements in the Nikkei 225 index.
- Mid-February: Trader agrees further derivative contracts to provide cash for losses he is sustaining as index falls.
- Thursday, Feb 23: Barings fails to roll over derivative contracts in Asia. Bank's senior executives in London are told that the contracts expose it to catastrophic losses.
- Friday, Feb 24: Barings advises Bank of England of its plight.
- Saturday and Sunday, Feb 25 and 26: Bank of England meets with executives of leading UK clearing and merchant banks to agree a rescue package before Asia-Pacific markets open today.

Pages 2 and 3
☐ A rescue is only option
☐ Pride in integrity takes a blow
☐ Complex jigsaw of deals
☐ Many could bid for assets

Editorial Comment, Page 15; Lex, Page 16; Markets This Week, Page 20-24



Executives gather at Baring's London HQ yesterday Malcolm Watson

Nervous reaction expected in financial markets

Investors likely to seek refuge in a continued 'flight to quality'

By Philip Coggan, Markets Editor, in London

Financial markets are expected to be highly nervous today as traders and investors absorb the full impact of the Barings crisis.

Provided the Bank of England put together a convincing rescue package, the main effect would be on sentiment, analysts said yesterday.

"I doubt if there'll be huge selling," said Mr Roger Bootle, chief economist at HSBC Markets, "but there may be a markdown in prices."

Investors are expected to react by continuing the recent investment flight to quality, which has benefited assets perceived to be "safe", such as D-Mark deposits and US government bonds.

The main markets which are expected to be hit are Tokyo, where the Barings losses were concentrated, and the other far eastern exchanges where Baring Securities did substantial business. Last week Tokyo's stock market did not benefit from the strength of Wall Street, where the Dow Jones Industrial Average reached a record high. On Friday, the Nikkei 225 Index closed at its lowest since January 1994.

"The Japanese stock market is already looking very vulnerable," said Mr Gerard Lyons, chief economist at Dai-Ichi Kangyo Bank International. "I think if it starts to fall there will be share buying by public pension funds and it will add to the pressure on the Bank of Japan to ease money market rates."

Mr Keith Skeoch, chief economist at broker James Capel, said that nerves would hit "other far east stock markets, such as Hong Kong and Singapore, where Baring Securities has been an active player".

The Barings crisis is the latest problem to emerge since the US Federal Reserve started to raise interest rates a year ago. "There are a lot of problems which are beginning to appear in the global financial system, largely as a result of tighter monetary policy. At a time when liquidity is being squeezed, the weakest links are exposed," said Mr Giles Keating, chief economist at CS First Boston.

Investors will become increasingly nervous about the creditworthiness of counterparties with which they do business. "If it can happen to Barings, who else could it happen to?" said one analyst.

Mr Jeffrey M. Applegate, chief investment strategist at CS First Boston, said: "Whenever central banks are raising rates to slow GDP they have to make a lot of people's bets go wrong. What is usually a soft landing to the economy is not necessarily a soft landing for the financial economy."

US and China avert trade war over copyright piracy

By Tony Walker in Beijing

China and the US yesterday averted a trade war with an agreement that included detailed steps to combat rampant Chinese copyright violations and improve market access for information and entertainment products.

US president Bill Clinton hailed the accord, saying it would assist US companies and promote broader goals in China: "Greater respect for rule of law and greater access to intellectual property products both promote a more open Chinese society."

Ms Charlene Barshefsky, the deputy US trade representative, said the protocol, thrashed out over nine gruelling negotiating sessions since 1993, represented the administration's "absolute determination" to protect US intellectual property rights.

Chinese and US officials went beyond yesterday's deadline in putting the finishing touches to the 22-page agreement, which spells out detailed enforcement measures and makes provision for US verification of actions against violations.

Piracy deal yields bonus on market access ....Page 5

Market access provisions are much broader in scope than anticipated and appear to open the Chinese market for the first time to a range of foreign entertainment and information products. Previously severe restrictions had been placed on the entry of foreign films, books and music.

The US had said it would impose punitive sanctions on 35 categories of Chinese imports worth $1.1bn (£690m) if no agreement was reached by a February 26 deadline. China had threatened retaliation against US products.

Among the main elements of yesterday's agreement, described by Ms Barshefsky as the "single most comprehensive intellectual property rights agreement negotiated with any country", are:

- Creation of task forces with wide-ranging powers to pursue and stamp out intellectual rights abuses.
- Launch of a six-month blitz against pirate factories.
- Stiffer customs procedures to stop the export of pirated items.
- Improved judicial procedures against intellectual property rights abuses, including greater transparency.
- Much enhanced opportunities for foreign companies to enter China's information and entertainment market through joint venture, licensing arrangements and imports.

Ms Barshefsky said the market access agreement would mean "substantially increased business" for foreign companies. It would also assist China by facilitating investment.

The US official praised Beijing's willingness in the end to conclude such an agreement. She said US negotiators had on occasions "despaired" as to whether China possessed the political will to act against the main culprits.

But China's recent closure of pirate plants and seizure of pirated items had provided the basis on which to build a "stronger and even more effective" regime against copyright violations. Ms Barshefsky admitted, however, that the key to a successful agreement would lie in China's willingness to live up to its undertakings.

CONTENTS

THE BARINGS CRISIS

Bank decides a rescue is the only option

By John Gapper, Banking Editor

> 'We all looked at the floor and said "there, but for the grace of God, go I".'
>
> **Senior banker attending Bank of England talks**

> 'The Singapore Monetary Authority will be going bananas. It hates this kind of thing.'
>
> **Singapore stockbroker**

The alternative to the rescue of Barings being organised by the Bank of England last night would have been a gamble with the common sense of the world's financial markets. It was not one that the Bank of England felt inclined to take.

If the Bank had simply allowed Barings to fail and place itself in administration rather than meeting its paper losses on Nikkei futures contracts, it could have had enormously destabilising effects on world financial markets.

The Bank of England did not face such clear pressure to act to protect British depositors and markets as in previous cases, such as the secondary banking crisis of 1973 and the Johnson Matthey crisis in 1984.

The Bank acted partly as the main supervisor of Baring & Co, which it licenses to take deposits, partly in *its guise of protector of British* financial markets, and partly in its role as a supervisor of global markets.

The immediate effect of an unprotected collapse of Barings might have been relatively simple:

● Holders of the bank's corporate bonds, with a market value of £60m last week, would have faced large *losses, possibly a complete loss.* Given that they are widely distributed, this would probably not have caused undue panic.

● Barings' counterparties in its future transactions would have had to absorb defaults on obligations. As some margin calls on the £600m paper loss are thought to have been met, this would probably also have *been possible.*

● The equity holders – notably the Baring Foundation, which holds non-voting equity – would have lost their investment. Senior managers of the investment bank, who own the voting shares, would also have lost their capital.

● Depositors with Barings, including banks which had £1.2bn on deposit at the end of June, would have faced difficulties in reclaiming their cash. They should eventually have been paid back once the business was wound up and sold.

But the effect of a failure to support Barings would have been limited to these matters only if Barings' administrators could have capped futures liabilities, and global financial markets had not panicked.

In practice, neither of these conditions would have been easy to achieve. Indeed, the difficulty of calming financial markets would have made it far harder to cap the liability from open contracts that *mature in March and June.*

The Bank of England and Barings' directors worked against the clock to produce a rescue package yesterday in time for the opening of the Wellington market in New Zealand at 9pm London time – the first Asia-Pacific market to open.

Without such a package, there was a danger of spiralling falls in world financial markets on fears over the possibility of linked collapses of banks, as well as the uncapped liability of Barings' contracts.

This would have in turn increased the liability on Barings' administrators. According to brokers' calculations, a fall of 1,000 points in the Nikkei 225 index would have increased the amount Barings owed on the contracts by £150m.

This would have meant that all counterparties to contracts would have been owed increasing sums as markets fell. The net result would be growing difficulty for central banks in being able to maintain confidence *in investment banks.*

For those who have warned of global systemic risk arising from derivatives, Barings appears to present a textbook case. In sacrificing the bank to the contracts, its dealer also managed to undermine global financial confidence.

Yet as in other cases where supervisory bodies intervene to prevent the collapse of a financial institution, the Bank will not be able to tell how much it encouraged "moral hazard" by acting to prevent a global financial panic.

Such moral hazard arises when other similar institutions are encouraged to indulge in risky practices knowing that they are likely to be rescued in case of disaster.

The Bank likes to encourage the view that no bank is "too big to fail". Yet by stepping in to try to prop up Barings, it may encourage the assumption that all investment banks could be rescued because their links with global financial markets makes their collapse too risky.

■ REGULATION

In-house control likely to be urged

International regulators are likely to step up pressure on banks to establish strict in-house controls on their traders, rather than impose broader rules on the trading of derivatives in the wake of Barings' losses in Singapore, according to bank analysts, Peter Montagnon writes.

The most alarming thing about the losses was how they were able to mount up so quickly in just three weeks, analysts said yesterday.

"There is systemic risk when you can get losses like this, as quickly as this," said Mr Robin Monroe-Davies of IBCA, the bank credit rating agency. "But the aspect people will look at is internal controls. Regulators will never be ahead of a bank itself."

In contrast with the collapse of Bank of Credit and Commerce International four years ago, the Barings case is unlikely to give rise to soul-searching about the adequacy of cross-border supervisory arrangements for banks. Even though both cases involved regulators in relatively small offshore banking centres, there was a clear line of responsibility for supervising Barings.

The Bank of England has been responsible for supervision of Barings' activities on a world-wide consolidated basis, which included its group controls systems. Singapore authorities collaborated in supervising Barings' activities there.

Simex, the Singapore futures exchange, was formally responsible for supervising Barings' subsidiary there which dealt in futures. It was overseen by the Monetary Authority of Singapore, which Mr Monroe-Davies described as "very tough".

But if the regulatory defences appeared to be in place, bankers said they were not equipped to detect fraud. "In practice it's impossible for the regulators to make sure that traders are obeying the controls," said Mr Hugh Pye, banking analyst at BZW.

"It's not a question of regulating derivatives trading so much as how they are controlled," said Mr Peter Toeman of Hoare Govett.

The Barings example does not suggest a need for greater capital requirements from banks involved in derivative business, the analysts said, though some argued that smaller institutions should be discouraged from derivatives trading altogether.

The market risk taken by banks in volatile derivatives markets has been a source of concern to supervisors, who have also worried that some deals have become so complicated they are difficult for senior management to follow and understand.

But one banker said it was unlikely that any additional capital requirements would have protected Barings from what appeared to have been simple deception. An employee was supposed to run a hedged position in Nikkei index futures and make money by arbitraging different prices in Singapore and Osaka, but he stopped hedging the purchases made in Singapore.

Regulators recognise that the only protection against such behaviour is strong internal controls, but they also know they will not have to press the point too hard.

Virtually every top banking executive in the City was at the Bank of England this weekend. According to one who was present, "we all looked at the floor and said 'there, but for the grace of God, go I'."

■ DERIVATIVES – By Richard Lapper

Losses fuel concerns over regulation

On the surface, the crisis at Barings could represent a significant setback for the rapidly growing international industry in derivatives – financial instruments whose value reflects that of underlying assets such as bonds, shares or commodities.

On the heels of a succession of highly publicised corporate losses over the last two years, affecting companies ranging from Procter & Gamble to Germany's Metallgesellschaft, this latest debacle is likely to sound further alarm bells.

Yet the immediate implications of the losses faced in this case are difficult to tease out. For a start, the size of the market movement which generated Barings' losses – a fall of about 9 per cent in the Nikkei 225 Index since the start of 1995 – is steep but not exceptional.

Nor do the losses tell us much about another issue that has worried regulators: the risk of counterparty default or credit risk. The losses appear to have resulted from trades in the exchange-traded sector, an area of the derivatives market regarded as more transparent – and as a result more secure – than the larger over the counter market, where banks offer customised deals for corporate customers.

One particularly significant derivatives loss – incurred last year by a trading subsidiary of Germany's Metallgesellschaft – did involve trading in exchange-listed products. But most serious recent losses have stemmed from more opaque OTC deals.

While OTC products frequently involve complex financial engineering, the futures and options traded on the world's exchanges are relatively straightforward. In addition, derivatives exchanges either operate with or are linked to clearing houses, which stand between trades and guarantee settlement.

These clearing houses are funded by collateral called from traders, both at the beginning of each transaction (initial margin) and at the end of each trading day if the value of a position changes (variation margin). Variation margin covers the difference between the contract's original price and its current price, which is marked to market on a daily basis.

The system provides a means for banks and securities firms that are active on the market and their regulators to keep watch over their exposures and ensure their capital resources are strong enough to meet potential liabilities. Indeed, it has been so effective that there have been calls for clearing houses to be set up in the larger OTC market, where the use of collateral on a bilateral basis has increased recently.

Partially reflecting these considerations, recent efforts to improve regulation in the OTC market have focused on the improvements of systems of reporting. For example, the Bank for International Settlements will today publish a report which outlines plans to improve the transparency of OTC derivatives markets.

The report says that recent surveys of the derivatives market have pointed to a "lack of transparency" which can make it difficult for "market participants and authorities alike to make informed judgments about the scale, structure and distribution of risk in these markets". It is possible that the Barings debacle could have implications for a third area of regulatory concern – that of ensuring that the use of derivatives is properly controlled by management – in order to avoid so-called "operational risk". This has been identified as a feature of a number of recent corporate losses.

Banks, too, have repeatedly stressed the importance of "risk management" by customers. Last year, for example, JP Morgan, the big US bank, made its own data available free of charge to allow customers to monitor and measure their own risks better. As the City digested news of the debacle, this figured in the initial reactions of most observers. According to Mr George Nianias, a risk management specialist with Cornhill Capital & Consulting: "The size of the losses are baffling, but they show that even top banks get into trouble and that it is helpful to have independent checks on traders."

■ HOW THE DEAL WAS MADE AND LOST – By Richard Lapper

Complex jigsaw of trades emerging

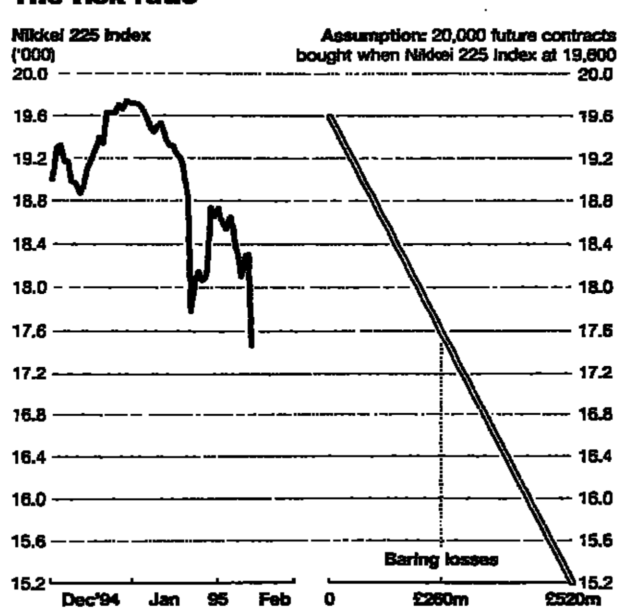
Full details of the derivatives trades which triggered the crisis at Barings have yet to emerge, but several pieces of what could prove to be a highly complex jigsaw are already tentatively in place.

● The loss-making deals by the Barings trader, who was based in the bank's Singapore office, involved derivatives with a value reflecting – and moving in parallel with – the Nikkei 225 stock index, a contract listed on the Osaka Securities Exchange in Japan and the Singapore International Monetary Exchange, as well as on the Chicago Mercantile Exchange. The deal is thought to have involved trading in both Osaka and Singapore.

● The trader is understood to have bought at least 20,000 – and according to some reports up to 40,000 – of these contracts expiring in mid-March, presumably on the assumption that their price would go up with the underlying stock market.

Each point of the Nikkei 225 futures contract carries a value of Y1,000, so with the Nikkei 225 trading at levels between 18,000 and 20,000 in the first few weeks of this year, each future would have a value of some Y18m-Y20m (£117,000-£130,000).

The risk ratio



Source: FT Graphite

Although the futures are straightforward instruments bearing no relation to the complex notes traded in the over-the-counter market, the size of the trades is regarded as exceptionally large by derivatives specialists.

"For a medium-sized bank 1,000 contracts was a bloody big trade; 10,000 of these contracts would be a very big deal indeed," said one consultant.

Assuming the purchase of 20,000 contracts and a fall in price from Y19.6m to Y17.6m, losses would amount to Y40bn.

● During the first few weeks of 1995, the value of the Nikkei fell, declining by about 6.5 per cent in the first three weeks of February.

Like other exchanges, both Singapore and Osaka insist that an owner of a futures contract must pay variation margin – covering the difference between the price at which the contracts were bought and their daily market price at the end of each day.

"Every day your broker sends slips in saying this is how much you are down. You get it every day and you need to pay up every day," explains one observer. "Brokers have to collect margins every day and report to the exchange."

It is also understood that in order to raise the cash for margins the trader sold put options – giving a counterparty the right to sell the contract at a pre-fixed price – on the contract.

The effect of this would have been to lever up the transaction, transforming an already highly geared trading strategy into a perilous double-or-quits game.

After a rally early last week, the Nikkei 225 contract slumped, losing some 250 points on Friday and falling below its previous low for the year.

● The overall picture could be more complicated than this, however. The trader appears, at least initially, to have based his strategy on the difference in price – effectively arbitraging – between the Nikkei 225 contract listed in Osaka and that listed in Singapore. The contracts are not fungible – they cannot be traded on one exchange and settled on another.

In addition there may also have been some trade in the underlying Japanese stocks, possibly in an attempt to balance or "hedge" the exposure on the derivatives contract.

The options available to Barings are now limited. The Nikkei contracts can be sold and the position closed – but this would leave the bank with a serious capital loss.

Alternatively, additional funds could be found to pay margin to the exchange or exchanges.

The contract would then be left open in the hope that share prices will recover and the value of the Nikkei 225 index rise. If this were to happen, some of the variation margin would be returned to the bank and the overall loss could be reduced.

■ MANAGEMENT CONTROLS – By Tony Jackson

Only the latest to be hit by big losses

Even as the details of the Barings affair start to emerge, the heads of banking and securities operations around the world will be anxiously asking themselves the same question. How could a bank so apparently well-conducted as Barings be open to such huge trading losses?

And if it could happen to Barings, which other finance house can be sure it is safe?

The depressing thing is that what has happened to Barings is by no means without precedent.

The most obvious recent parallel is that of the US securities firm Kidder Peabody, where the head of government bond trading, Mr Joseph Jett, was fired last year for allegedly creating $350m of fictitious profits over a two year period.

Kidder was part of General Electric, a firm famous for its tight controls. As a result of Mr Jett's predations, Kidder is now being broken up or closed down.

Or take the Wall Street firm of Salomon Brothers, which in 1991 had to pay several hundred million dollars in fines and compensation after its head of bond trading was found to have faked customer bids in Treasury auctions.

The repercussions of that case are scarcely over: new management brought in to overhaul the firm have discovered further cases of shaky controls, and only last month had to write off several hundred million dollars more for past book-keeping errors.

The trouble is, of course, that there is limited defence against the determined fraudster, whether in the securities industry or anywhere else.

As Kidder's chief executive Mr Michael Carpenter remarked – shortly before losing his job over the affair – "when somebody is trying to obfuscate the system for a deliberate purpose, it's hard to always be protected."

But there are other issues involved here. While the Barings case seems to offer some novel features, the underlying theme is one of loss of management control.

Again, this is neither new nor confined to the securities industry.

Those with long memories will recall the Rowntree affair of 1973, when one of the UK's biggest confectionery firms lost two thirds of its net worth through unsupervised trading in cocoa futures.

More recently, the drinks and food group Allied-Lyons (now Allied Domecq) made large and embarrassing losses through foreign exchange speculation, as a result of which the finance director lost his job.

While companies are now unlikely to suffer damage on anything as simple as cocoa or foreign exchange, the trouble about supervision is that it deals with a moving target. Systems of financial control have to match in complexity the operations which they supervise.

It is already clear that the Barings case was a complex one: a Singapore-based trader dealing in sophisticated Japanese instruments for a London-based bank.

In such a case, it becomes of pressing interest to know how Barings organised its chain of command.

The other pressing question is how much fraud there is waiting to emerge in the world financial community. As J K Galbraith remarked in his book on the Great Crash, the amount of embezzlement in the system - what he called "the bezzle" - tends to fluctuate with the cycle.

"In good times", Galbraith wrote, "people are relaxed, trusting and money is plentiful. But even though money is plentiful, there are always many people who need more. Under these circumstances the rate of embezzlement grows, the rate of discovery falls off, and the bezzle increases rapidly. In depression all this is reversed."

Until just under a year ago, most of the world's securities firms were feeling very affluent indeed. Then US interest rates started to rise, and the industry went into a recession of its own. It is devoutly to be hoped that Barings is a one-off, but it might not do to count on it.

■ REGULATION IN SINGAPORE – By Kieran Cooke and Gordon Cramb

Pride in integrity takes a blow

A Singapore broker put it succinctly: "The Monetary Authority [Singapore's de facto central bank] will be going bananas. It hates this kind of thing."

Singapore prides itself on its rules. Its regulatory framework, governing the stock market, the banking industry, money trading and other parts of its growing financial services sector, is among the most comprehensive in the world. Big forex losses, like bank failures, are for others, but not for Singapore.

"While we encourage a thriving and innovative foreign exchange market in Singapore, I also stress that it is our policy to ensure a high level of integrity and soundness in the market," said Mr Richard Hu, Singapore's finance minister, at the end of last year.

But now Singapore finds itself at the centre of one of the biggest banking crises in recent years.

Singapore, in an effort to boost its role as a financial centre, has moved aggressively into the derivatives market. The Barings deals that went awry were traded through the Singapore International Monetary Exchange (Simex) which in the mid 1980s became the first exchange in East Asia to trade financial futures. In 1986 it became the first exchange in the world to offer Japanese stock index futures through the Nikkei 225 index.

The Nikkei 225 contract – reported to have been used in the ill-fated Barings dealings – has since become one of the mainstays of Simex, accounting for a third of all the exchange's business. Simex has been one of the financial world's great success stories in recent times.

According to the Finance Ministry, Simex recorded a 50 per cent increase in trading volume last year, with an average daily turnover of about 100,000 contracts. Over 80 per cent of Simex business comes from outside Singapore.

Singapore feels it has carved itself an important and growing niche in the financial markets. Ms Elizabeth Sam, Simex's chairman, said last month that banks, faced with shrinking returns in many traditional activities, were turning increasingly to derivatives. "Banks will find, more and more, that helping their clients to manage their risks is going to be just as rewarding, if not more so, than lending money," said Ms Sam.

The Singapore authorities will be intensely angry that a foreign banking house – and a foreign trader – now threaten the good name of the island republic as a financial centre and the world's fourth largest forex market.

The Singapore authorities have issued countless warnings that financial institutions must carry out such high-risk activities as derivatives trading according to the highest standards of professionalism and prudence.

"In order to avoid unanticipated losses, both financial institutions and their customers must exercise diligence in evaluating and understanding the risks of derivatives products," said Mr Hu last month. The finance minister said institutions must employ robust internal checks to monitor the risks of derivative trading. There must be proper review and audit systems in place. Clients must also be informed of the full range of risks involved.

In its last annual report, the Monetary Authority reiterated that there must be adequate in-house supervision and risk management of derivatives.

But – as has been the case in the US, in Germany and now in Singapore – self-regulation can fail badly. As derivatives trading becomes ever more complex, regulation – whether internal or external – becomes difficult.

"Ultimately, if you want to cover something up, it's not that difficult," said one Singapore trader. "Derivative positions change all the time and balance sheets don't give a proper picture of what's going on. For anyone on the outside to keep track is virtually impossible."

■ COMPETITION BETWEEN MARKETS – By William Dawkins

Trade went from Tokyo to Osaka to Singapore

The financial trader who put Barings' life on the line was gambling on an arcane sounding yet spectacular game.

According to initial indications from banking officials in the Far East and London, the culprit had miscalculated on the price differences between futures in the Nikkei 225 – Japan's main stock index – on the Osaka and Singapore equity markets.

If so, the calamity is a case study of how it is beyond the capacity of any single country to regulate the derivatives market.

Japan's ultra-conservative financial authorities have kept stricter control than the international average over derivatives trading since it started to catch on in Tokyo in 1988, but with little effect.

Each time the Finance Ministry or Tokyo Stock Exchange has sought to restrict derivatives trading, the market has slipped out of its reach, first from Tokyo to Osaka in the early 1990s, and then from Osaka to Singapore.

Mountains of paperwork are required to complete such transactions and Japanese equity purchasing fees are up to eight times higher than other financial centres, with the obvious result that much trading has shifted offshore to cheaper and less regulated centres.

The moral, Finance Ministry officials now admit, is that derivatives trading is more a matter for multilateral regulation, through the Bank for International Settlements, than for ineffective national controls. Barings' giant loss, with its likely shock waves for the Tokyo stock market, may well prove them right.

Osaka, rather than Singapore, was the first to benefit from the flight of derivatives trading from Tokyo.

Today, most of Japan's stock index futures trade is done on the Osaka exchange, although its index is based on cash prices in Tokyo. In recent years, the TSE has blamed Osaka's success in futures trading as a factor in Tokyo's low share prices and flagging market turnover.

Recently, however, Osaka in its turn has seen the action shift elsewhere.

Since 1991, the trading volume of Nikkei 225 futures contracts on the OSE has contracted from 1.75m contracts a month to around 440,000. Over the same period, Singapore's Nikkei 225 futures market has multiplied nearly seven times to 405,000 contracts a month and is well on the way to overtaking Osaka.

A misplaced bet on the different performances of these two futures markets, on the other side of the world from Baring's headquarters in London, is what has brought one of Britain's most distinguished merchant banks to its knees.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
F

Disaster, just when most things were going right

By Nicholas Denton

There is never a good time to go bust but corporate finance staff must find the timing of Barings' current crisis particularly galling. Baring Brothers, the merchant banking arm of the group, is enjoying a surge of business.

It is a modest comeback for Britain's oldest and once largest merchant bank. It is now in the second rank of Britain's investment banks but it has profitable and respected niche businesses in UK corporate finance, emerging markets and investment management. "We have chosen the right things to do and avoided the wrong things," Mr Peter Baring, group chairman, said last year.

It has been enjoying particular success recently in mergers and acquisitions. Of purely UK houses it handled the largest amount of acquisitions in Europe last year after S.G. Warburg. It was sixth overall, advising on 29 transactions with a combined value of $8.7bn, according to Securities Data. That was a big jump from 1993, when Baring was 14th with deals worth $2.6bn.

The merchant bank's good fortune continued into this year. One of its established clients is Wellcome, giving Baring a role in the pharmaceutical company's defence against the current hostile bid by Glaxo. Baring advises Wellcome alongside Morgan Stanley of the US. The deal, if completed, would be the biggest ever takeover in the UK.

Advising companies such as Wellcome helped Barings increase income from fees and commissions by 47 per cent to £238m in the first half of 1994. Its long client list ensures that it will have a part of any rise in corporate takeover activity.

Baring Brothers advises about 70 quoted clients in the UK, including 3i Group, Allied Domecq, Coats Viyella, Inchcape, Johnson Matthey, Lloyds Bank, Midlands Electricity, Scottish Power, WH Smith, Whitbread and Yorkshire Water, as well as Wellcome.

It handled 3i's flotation and Allied's acquisition of Domecq of Spain. It has been involved in Lloyds's bid for Cheltenham & Gloucester Building Society.

Baring's other great strength is in emerging markets, even though it was Latin America which sunk the bank in 1890 and the Far East now. About third of the group's headcount of 4,076 is based in Asia and about half outside the UK.

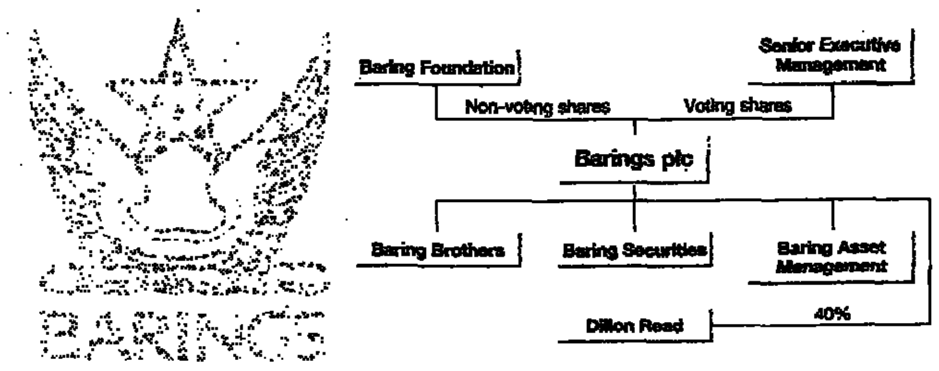
Baring Securities, the broking and marketmaking arm of the group, is a leading equity broker in Asia and Latin America. It has offices in 24 financial centres: two in Europe, three in North America, five in Latin America and 13 in Asia.

Emerging markets have also been a speciality of Baring's third leg, its fund management operation. Baring Asset Management has over £30bn in funds under management. Of all fund managers it has moved the most heavily into eastern Europe. Barings raised $180m for an investment vehicle specifically for the former Soviet Union, the First NIS Regional Fund.

The group record has been mixed, however, even before its latest reversal. It has only been a minor player in sterling fixed-income markets and its position in that area has become increasingly unsustainable. Barings said it would cease to be a gilt-edged marketmaker if the Bank of England's proposals for an open gilt repo market were implemented.

Its profits too have fluctuated wildly. They fell from £66m in 1989 to £21m in 1992 and rebounded to £100m in 1993 and £55m in the first half of 1994. Expectations of stable profits for the whole year have been shattered by the losses on derivatives in the Far East.

The impact will be greatest on the Baring Foundation, a charitable organisation which owns all the ordinary shares of Barings plc, which are non-voting. Top management own a token 100 special voting shares which give them control.



'The sixth great power' - a brief banking history

Francis Baring establishes the firm in London in 1762. It prospers on the rapid growth of international trade, oiling the wheels by developing a new form of finance – the acceptance business. It also does rather nicely out of wars, raising funds to finance fighting the Americans and French, and helping the Portuguese to pay off their war debts. In 1803, it helps to finance the US purchase of the Louisiana Territory.

In 1818, when a French loan goes sour, it is saved from ruin by the Duke of Wellington, who arranges for the second half of the loan to be cancelled. Duc de Richelieu is said to have observed: "There are six great powers in Europe: England, France, Prussia, Austria, Russia and Baring Brothers."

Through the 19th century, it prospers mightily, mainly on the strength of its business in the Americas, particularly Argentina and Uruguay. There are more awkward moments, such as in the 1840s when Pennsylvania, Florida, Mississippi and other states go into default. Barings becomes by far the biggest merchant bank in London when it comes to issuing foreign securities. In 1886, it floats Guinness on the London market, an issue that is so heavily oversubscribed that special police have to be hired to hold back the crowds.

After the crisis of 1890, the family rebuilds business, but never achieves such prominence in the City again. It remains a blue-blooded institution, run by members of the family and owned by a charitable foundation. But in recent years, its influence grows significantly. It retains its independence at Big Bang in 1986, and builds a substantial asset management and corporate finance business and develops a substantial Far East securities business.

■ DILLON READ

NY bank 'controls its own destiny'

Mr Fritz Hobbs, president and chief executive officer of Dillon Read, the New York investment bank in which Barings has a 40 per cent stake, stressed yesterday that the problems at Barings would not affect Dillon Read's financial position, Maggie Urry writes.

"There was no financial back and forth between us at all," he said. "They are minority shareholders in Dillon Read. We, the management, control our own destiny."

If Barings' stake were sold, he said the Dillon Read management, which owns 60 per cent of the equity, would buy it. Barings and the management bought their stakes in November 1991 when Travelers, the insurance group, sold Dillon Read to raise cash. Mr Hobbs said it was agreed then that Dillon Read management had right of refusal on any stock Barings sold. "We are confident we have the resources to buy that block. We'd just as soon have our stock."

He had first heard about Barings' difficulties on Friday and at that time "we reaffirmed our understanding of our relationship with them". He said he knew few details, but the episode was "terribly unfortunate" for Barings. "We are very sad for them."

Barings and Dillon Read have worked together on a number of corporate financings, including transatlantic deals such as BTR's acquisition of Rexnord in late 1993, the recent takeover by Berisford International of Welbilt; and Alusuisse-Lonza's purchase of the Canadian Lawson Mardon packaging group early last year.

In 1993 Barings and Dillon Read topped Securities Data Corporation's league table for transatlantic mergers and acquisitions.

The two have also joined forces on a host of private placements, and there were a number of initiatives in the pipeline, one Barings insider said. He said the relationship between the two banks had been flourishing lately.

However, Mr Hobbs said that if the relationship were to end it would not materially affect Dillon Read's business. "We have worked very closely together in a number of situations. And in the last two to three years we have been working with Barings a lot. But there are any number of other houses we can work with. We're just going to wait and see what happens."

He said Dillon Read had had a good year in 1994, although profits were down on its 1993 record. Mr Hobbs said that looking at the results from other Wall Street firms, "we are pretty satisfied".

■ INVESTORS

Managed funds safe behind a ring fence

Many individuals and companies have a stake in organisations bearing the Barings name, John Authers writes. However, few small investors will be directly affected by the bank's crisis. Instead, the impact will be felt indirectly, from the effect the situation at Barings has on its large corporate clients.

Regulatory authorities are unlikely to offer investors much choice. The company has raised money by bond issues, and Barings bonds worth about £60m are now in circulation. However, the Stock Exchange is unlikely to allow any trading in the bonds this morning. Similar restrictions are also likely to apply to depositors.

The most visible products carrying the Baring name are provided by Baring Asset Management, whose unit trust operation alone has about 50,000 separate investors. However, these have been "ring-fenced". Baring merely acts as proprietor of the company which manages the investments. All of the 20 Baring unit trusts are held by independent trustees – either Citicorp or the Royal Bank of Scotland – and so the problems of the parent company would not affect them.

The company's two investment trusts are quoted, and should therefore only move in accord with sentiment in the market about the securities held within their portfolios.

Barings also provides the management for UK corporate and US state pension funds, which are ring-fenced, while the company runs portfolios for individuals, at a minimum annual fee of £10,000. There is unlikely to be much reason to move away from the unit trusts if the management company changed hands.

■ POSSIBLE SUITORS – By John Gapper

Many likely to bid for assets if price is right

At the right prices, there could be many suitors for the Barings operations that have in effect been put up for sale. Among the front-runners will be European banks looking to reinforce their investment banking presence.

Barings' assets fall into three main categories: its 40 per cent stake in Dillon Read, the US investment bank; its fund management arm, Baring Asset Management; and its corporate finance advisory arm, Baring Brothers. The corporate finance business, headed by the group's deputy chairman, Mr Andrew Tuckey, is not the most valuable asset, but it may attract the most interest from banks seeking a toehold in the London equity markets.

The prime UK candidates to acquire it would probably be Barclays and National Westminster Bank. Both banks have strong secondary trading arms, but want to reinforce primary capacity in London.

Another possibility among UK banks is HSBC Holdings, which announces its annual results this morning and is trying to expand. Its UK merchant bank, Samuel Montagu, does not match the power of its broker, James Capel.

Among continental European banks, there could be several suitors. Dresdner Bank is trying to grow an investment bank in London, and has been the object of rumours over possible takeovers of S.G. Warburg and Kleinwort Benson.

ABN Amro, the Dutch bank that has just formed an investment banking division based on its London broker Hoare Govett, could also be interested in expanding its primary issuing capacity. ING Bank of the Netherlands, which has mirrored Barings' strategy in establishing a strong presence in emerging markets, is another possibility.

US investment banks could also want to boost their London primary presence. Although banks such as Merrill Lynch and Morgan Stanley have invested in corporate finance arms, some could seek the chance to reinforce them quickly. Equally, the 40 per cent stake in Dillon Read could be of interest to UK and European investment banks which want to establish a presence in the US. BZW is currently carrying out a strategic review of its presence in the US.

Baring Asset Management, which handles £30bn of funds, could fetch more than £800m. The appetite for such an operation was shown by Morgan Stanley's interest in Mercury Asset Management during its failed attempt to merge with S.G. Warburg. The prime candidates to acquire the operation, if it was sold separately, would probably be US investment banks looking to match their US domestic asset management operations with an equivalent presence in Europe.

■ HISTORY REPEATED – By David Kynaston

"SAME OLD GAME!"

Old Lady of Threadneedle Street: "You've got yourselves into a nice mess with your precious *'speculation!'* Well – I'll help you out of it, – *for this once!!"* Tenniel, Punch, November 8 1890

1890: a peculiarly British crisis

First thing on Monday morning, following an urgent if mysterious summons, George Goschen, the Chancellor of the Exchequer, presented himself at the Bank of England to see the governor.

"Found him in dreadful state. Barings in such danger that unless aid is given, they must stop. All houses would tumble one after the other. All credit gone."

A shaken Goschen then left the governor, William Lidderdale, and went to talk to two other senior bankers. Both of them, he continued in his diary, were "quite demoralised". That evening was the Lord Mayor's banquet and, just before it began, Goschen told the Prime Minister, Lord Salisbury, about the plight of Barings. "Is it as bad as that?" asked Salisbury.

So, on November 10 1890, began the City's longest week. Only a few leading bankers were fully in the know and none doubted the dire consequences of Barings going under.

It was not just that the demise would have a domino effect on other City houses. It was also that the entire supremacy of the City of London as an international financial centre would be imperilled.

The great engine of international trade had become the bill on London. These bills were guaranteed by the London acceptance houses, chief of which was Barings. If Barings went down, then so too would much of the City's business.

Argentina has always had an attraction for the City, and in the late 1880s Barings was at the forefront of an enormous outflow of British capital to that country.

Chief among its schemes was one for the Buenos Aires Water Supply and Drainage Company, a grandiose attempt to bring Victorian purity to that city. But by 1890 all had turned sour: a lethal combination of financial maladministration and political revolution left Barings dreadfully exposed, committed to further large payments on what had become a worthless concession.

By crisis week in November the firm was some £9m short – roughly £250m in present-day values – of what it needed to carry on. Such a sum was about three times the size of Barings' capital, and there was no alternative but to look elsewhere for salvation.

Much turned on Bertram Currie, a leading partner of the private bank Glyn Mills. He was entrusted by Lidderdale with the task of determining whether Barings was worthy of rescue.

Controlling operations from Threadneedle Street was Governor Lidderdale, a tough-minded Scottish merchant. He found an important ally in Rothschild.

What about the government itself? Goschen was a capable chancellor and, as a former banker, was fully aware of the gravity of the crisis, but had a deeply indecisive streak. "If I do nothing and the crash comes I should never be forgiven: if I act, and disaster never occurs, Parliament would never forgive my having pledged the national credit to a private firm."

Friday the 14th proved the crunch. During a trying morning, two things became clear: that in Currie's eyes the assets of Barings did show a substantial surplus over its liabilities, and second, that after almost a week of astute news management, the City was starting to succumb to outright panic.

John Daniell, senior partner of Mullens the government brokers, burst into the Bank at about noon, crying to Lidderdale with his arms aloft: "Can't you do something, or say something, to relieve people's minds? They have made up their minds that something awful is up, and they are talking of the very highest names – the very highest!"

In the end, the government gave Lidderdale just under 24 hours to save Barings, promising that it would bear half the loss resulting from taking in Barings' bills up to early afternoon on Saturday.

By 5pm Lidderdale was back in the City. There, in the governor's room at the Bank, he called a meeting of the Court of Directors.

He announced that the Bank was willing to put up £1m towards a guarantee fund for Barings.

Currie declared that Glyn Mills would contribute £500,000 on the condition that Rothschilds did the same. Moments later Rothschild arrived at the meeting. Would he agree? To quote Currie's subsequent account: "He hesitated and desired to consult his brothers, but was finally and after some pressure persuaded to put down the name of his firm for £500,000." The success of the guarantee fund was assured, as all the leading banks rushed to contribute.

So ended a peculiarly British crisis, played out behind closed doors by a small group of people.

■ ABBEY NATIONAL

Joint venture to 'operate normally'

Abbey National, the UK home loans and banking group, said yesterday that its joint venture with Barings – Abbey National Baring Derivatives – would not be affected by the fate of the merchant bank, writes Alison Smith.

The joint venture, set up in August 1993, is a wholly-owned subsidiary of Abbey National Treasury Services. It provides derivatives to counterparties who are mainly banks and building societies, and does not carry out any proprietary trading. The instruments are used, for example, to hedge fixed-rate mortgages.

ANBD was established as a jointly managed operation, but the original agreement contained a clause allowing Abbey to take over the management if circumstances required.

Abbey said yesterday: "Counterparty rights against, and obligations to, ANBD are entirely unaffected, and ANBD expects to continue operating normally.

"The controls on ANBD have always been the responsibility of Abbey National and stringent standards have always applied."

Abbey's treasury operation, of which ANBD is a small element, has been one of the areas it has most developed in taking advantage of the greater freedoms available since Abbey converted from being a building society in 1989.

■ LESSONS FROM THE PAST – By Barry Riley

Global high seas would test the lifeboat

Banking lifeboats are a convenient means for central banks to avoid systemic collapses, but they can be controversial when public money is at risk and institutions are perceived to be treated unequally.

In early 1974, the Bank of England secretly launched the biggest banking rescue operation ever seen in the UK. In October 1984, it publicly rescued Johnson Matthey bankers in a much more controversial operation. Now the question is whether the old rules can apply in a global marketplace, where British-based institutions must surely, in principle, venture at their own risk.

When a bank gets into serious trouble, the regulators in central banks apply several tests in deciding on the right course of action. To begin with, is it a problem of solvency or of liquidity? Almost *any* bank forced to conduct a fire-sale of assets to repay short-term depositors would find a deficiency. But given time to realise assets in an orderly fashion, it might be seen to be solvent. The institution might even eventually regain the confidence of depositors and stand on its own feet again. However, if a sudden disaster wipes out the capital of the bank, as appears to have happened to Barings, the solvency test is failed by definition.

Second, if the bank collapses, will there be a so-called systemic threat to the banking industry? If a bank is big enough, severe shocks will be transmitted through the interbank and other financial markets. Might banks go down like dominoes as panic spreads?

Central banks argue that they need flexibility in making such judgments. But this can create allegations of discrimination – either of favourable treatment being given to blue-blooded or establishment banks, or even of racial discrimination, as in the shutdown of BCCI. Although that was not a British bank, several other Asian-connected banks in the UK were permitted to fail in the early 1990s, causing bitter complaints from the Asian community.

The 1974 crisis was a clear case of a systemic problem. It originated from a sudden loss of confidence in a fringe bank called London & County Securities. There had been a big expansion of so-called secondary banks, focusing on lending related to property and consumer instalment credit. With a sharp rise in interest rates and a collapse in property values, fear of what bankers call "contagion" caused panic to spread from fringe bank to fringe bank. At one stage even National Westminster Bank considered it necessary to point out that it was not running short of deposits.

Panicky depositors try to move their money to a core of banks regarded as earthquake-proof. The Bank of England in 1974 persuaded the big banks, notably the clearing banks, to recycle the deposits through a "lifeboat" scheme which at one stage handled well over £1bn (say £6bn in today's money).

Clearly the big banks had a strong commercial interest in co-operating with the Bank of England. Widespread secondary banking collapses would have left them with enormous bad debts. True, they also bore a risk in supporting possibly insolvent institutions. However, over some years the problems of the stricken fringe banks could be worked out, assisted by rapid inflation with its beneficial impact on asset values. The fringe banks and finance companies were either mopped up or, in one or two cases, as with First National Finance Corporation, eventually refloated.

The launching of the lifeboat was made easier by the almost complete confinement of the problem to the domestic UK market. There was no danger that the Bank of England would trespass on the territory of overseas banking regulators.

The Johnson Matthey case was much more specific, involving bad debts resulting from imprudent lending. The Bank of England's decision to organise a rescue, and eventually to take over the business, generated controversy. Did Johnson Matthey's position among the exclusive members of the City of London's gold-fixing "ring" give it a systemic sensitivity not possessed by other banks? At least, the Bank of England eventually got its money back.

Rightly or wrongly, concern about the image of the City of London played a part in the Bank's approach to JMB – worked out, as with Barings, in the course of chaotic emergency meetings. No depositors lost money at JMB, but they did a few years later at BCCI and other banks which were not considered systemically critical.

In 1995 the Bank of England will be just as concerned at the impact on the City's image of the failure of a blue-chip institution. However, the source of the latest crisis lies far outside the UK's immediate jurisdiction. It is hard to see why other British, let alone foreign, banks and securities firms would want to pay into a lifeboat fund unless the systemic risk were truly global in scale.

Complex international rules have been worked out for bank regulation. Whatever the motives of international organisations such as the Bank for International Settlements, they are unlikely to include a commitment to sustaining the prestige of the City of London. However, if an international lifeboat for Barings were seen as essential to prevent disastrous knock-on effects in the global securities markets and derivatives markets, the effectiveness of the approach has been proven in practice, but so far on a domestic rather than a global basis.

■ POLITICAL REACTION – By James Blitz

MPs see danger in derivatives

Conservative and Labour politicians yesterday expressed concern about the losses incurred by Barings, arguing that they had exposed inherent dangers in the recent growth of derivatives trading.

Treasury ministers and officials refused to give any comment on events surrounding the merchant bank, saying the implementation of a rescue package was almost entirely in the hands of the Bank of England.

However, the Labour party said the depth of the losses incurred had revealed weaknesses in the UK central bank's supervisory regime and called for a re-examination of the way in which the UK banking system is regulated.

Mr Alistair Darling, Labour's spokesman on City affairs, expressed astonishment that a single trader could have run up £600m of trading losses without senior bank officials being aware of them. "It is essential that Bank of England regulators – and those in other countries – urgently review the supervisory regime as far as derivatives are concerned. It should be a requirement that banks have in place sufficient safeguards to ensure that they know the extent of risk to which they are exposed."

Mr Darling also made clear that Labour would not object to the Bank of England using its reserves as part of a rescue in a crisis of this kind.

Mr Quentin Davies, a conservative member of the Commons Treasury select committee, called on the Bank of England to disclose when it had first been aware of the crisis at Barings and what immediate action it took. "It is much easier to act pre-emptively than it is once the crisis has actually hit the markets," he told BBC radio.

The crisis at Barings comes just weeks before the Treasury and Civil Service Select Committee investigates the supervision of derivatives trading in the UK. The all-party group of MPs is due to conduct the hearings as part of its report into the financial services industry.

Battle lines harden in German pay row

By Michael Lindemann in Bonn

The biggest strike in Germany's engineering industry for 11 years entered its fourth day today, with both sides adamant they would not give in and with growing signs that workers in other sectors would also hold out for wage rises.

Gesamtmetall, the engineering employers' association, urged its members to "endure" the strike, which has so far hit only the state of Bavaria – a first step to possibly wider industrial action.

IG Metall, the 3m-strong engineering union, meanwhile warned that the industrial action would be extended on Wednesday. "If we do not get an offer from the employers, the strike could go on for weeks," said Mr Werner Neugebauer, the union's leader in Bavaria, where about 14,000 workers at 22 plants have joined the strike.

Further signs that it will be difficult to agree on wage rises as the German economy recovers came as the HBV union, representing banking and insurance workers, said the 2 per cent they had been offered did not "reflect the above-average performance of the financial service sector". The construction workers' union called for a 6.5 per cent pay rise, higher than the 6 per cent which IG Metall is demanding.

It is unclear what effects the stoppage will have on the German economy. But political anxiety surfaced, with Mr Theo Waigel, finance minister, urging the two sides to restart talks, saying the strike was "a burden on the economy, stability and the D-Mark and a threat to jobs".

The strike comes as German industry is fighting to keep down costs and as political pressure is mounting on union leaders to accept more flexibility in working hours.

A weekend poll by the Allensbach institute showed that 66 per cent of Germans were worried labour costs were too high, especially after the December decision by carmaker Mercedes-Benz to build its new Swatch-mobile in France.

Gesamtmetall said the association would refuse to name a specific figure for a wage rise until the union agreed to talk about measures to cut costs. In a letter to members, Mr Hans-Joachim Gottschol, the Gesamtmetall chairman, said 40 per cent of engineering companies lost money last year and no other sector was facing the cost burden of agreed cuts in working hours and increased holiday pay.

Some executives in German industry have said working times should be more closely linked to the size of order books, so that factories could work more hours a week in the spring as orders come in and reduce working time later in the year as orders tail off.

IG Bau-Steine-Erden, the union representing the construction workers whose pay talks begin on March 3, called for a 6.5 per cent pay rise, saying the industry had earned more than any other sector.

Editorial comment, Page 15

High unemployment puts new jobs at top of French agenda

The rival presidential candidates all agree that urgent action is necessary, but solutions to the problem are anything but clear, writes John Ridding in Paris

For the dejected youths at Fauvettes, a grim district in the eastern suburbs of Paris, there is one issue which should dominate the agenda of President François Mitterrand's successor – unemployment. "There are no jobs, so there is no way out," says Benjamin, aged 24.

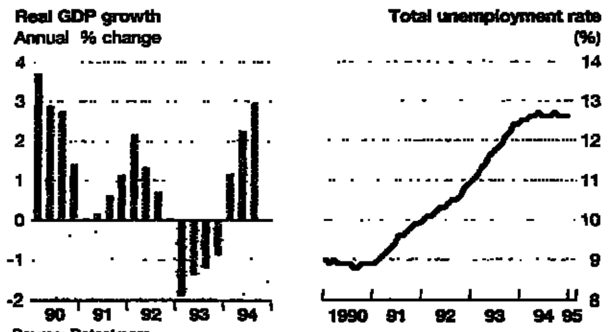
The message is not lost on the candidates lining up to contest the spring presidential poll. "Absolute priority must be given to the fight for jobs," said Mr Jacques Chirac, Gaullist mayor of Paris in his keynote economic speech earlier this month. The other main candidates, Mr Edouard Balladur, the prime minister, and Mr Lionel Jospin, the Socialist contender, express similar resolve.

The importance of the issue is most immediately revealed in labour market statistics. More than one in eight of the labour force are out of a job, one of the highest rates in the industrialised world. In spite of faster than expected economic growth last year of 2.5 per cent, the jobless rate has yet to start falling.

But the stakes for French society extend well beyond the 3.33m looking for work. With one in five young people between the ages of 16 and 25 jobless, and with unemployment having extended to graduates and the middle classes, parents fear a dearth of prospects for their children.

The costs of income support and welfare place a burden on the economy, while the associated frustrations of joblessness threaten serious social strains. "There will come a time when people will stop looking through the windows into a society from which they are barred and start smashing the glass," says an official at the CFDT union.

France



Source: Datastream

If the stakes are clear, however, the solutions are anything but. At the root of the problem lie a series of labour market rigidities, many of which relate to the high social security charges paid by business and to a legacy of weaknesses in France's vocational training system. Such structural problems preclude rapid or easy solutions and leave the principal presidential candidates struggling to offer effective initiatives to back up their promises.

Mr Balladur argues that the only durable solution to unemployment involves addressing the structural faults in the labour market without jeopardising economic growth. His administration has implemented incentive schemes for training and apprenticeships and reduced some of the social charges facing employees. These charges, which cover health and welfare contributions, often add up to more than half an individual's wage.

The prime minister claims the tide is turning. He points to a stabilisation in the number of jobless in 1994 and forecasts a reduction of 200,000 for each of the next five years.

His opponents say this is too little, too late. Mr Chirac attacks his Gaullist rival for placing too much emphasis on the fight against inflation and not enough on the real economy. He promises to implement tougher measures in an "emergency employment contract". These include a monthly payment of FFr2,000 ($390) and an exoneration of social charges for companies which hire long-term unemployed. He believes the cost will be largely covered by savings from reduced unemployment, estimated by Mr Chirac at FFr80,000-FFr120,000 per person a year.

Mr Jospin has seized on unemployment as a stick with which to beat the conservative candidates. But he faces a delicate task in defining his solution. The Socialist party platform, agreed before he was elected as presidential candidate earlier this month, calls for a reduction in the working week from 39 hours to 35 hours over the next five years, a measure aimed at providing more part-time jobs and flexibility in the labour market. But the thorny question is to what extent wages should be reduced in line with hours.

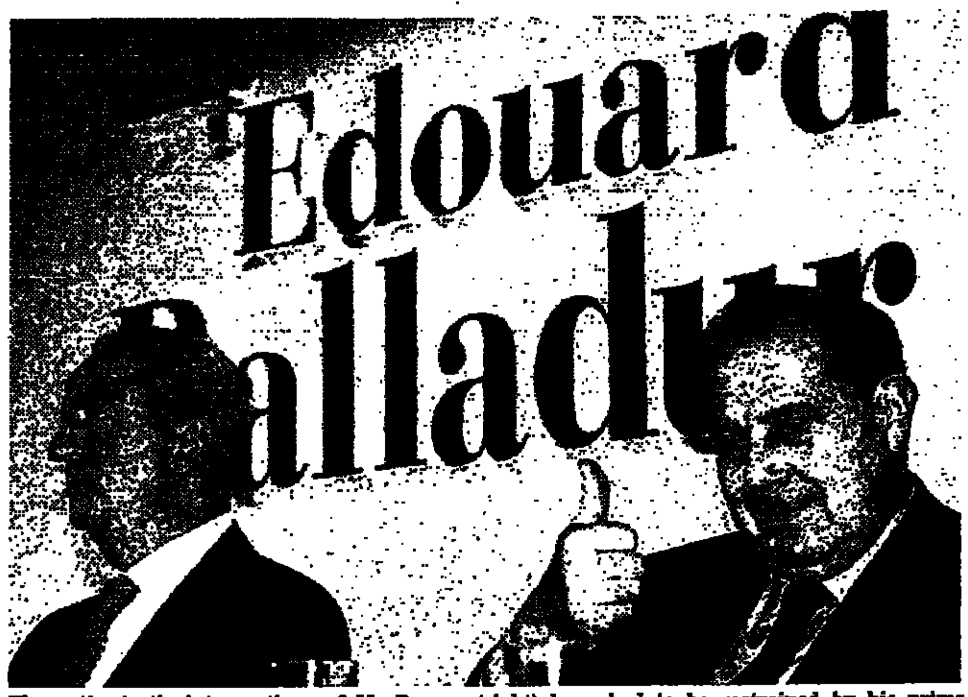
The idea of reducing the working week and substituting workers is not new. It was mooted by Mr Michel Rocard, the former Socialist party leader, and has gained credibility through experiments in Germany. But it is greeted with scepticism by employers. "It is one thing if there is a pay cut to match the reduction in working hours", says Mr Michel Mottard, chairman of Samat, a Lyons transport company and a local Patronat official. "But how can it make sense if the overall labour cost is increased?"

Doubts are not restricted to Socialist initiatives. Mr Chirac has yet to explain how he plans to prevent abuse of the system he proposes – in particular, how to stop companies replacing existing workers with subsidised employees.

While business leaders agree on the need to shift more charges from industry to the state, many believe Mr Balladur may balk at opposition to necessary measures. "The risk is that he won't be bold enough," says the chairman of one manufacturing group.

There is indeed a risk of confrontation. Mr Marc Blondel, general secretary of the Force Ouvrière union, told a rally of 30,000 supporters last month that "tampering" with the social security system would merit a general strike. He opposed the shift of welfare charges to the state budget, describing it as a step towards a reduction in welfare payment and in linking them to the economic cycle.

For the youths of Fauvettes, the reaction is one of scepticism. "There is a lot of talk at election time," says one. His fear, like many others, is that joblessness will continue to be the big issue long after the installation of Mr Mitterrand's successor.



The enthusiastic interventions of Mr Pasqua (right) have had to be restrained by his prime minister, Mr Balladur (left), following the storm over the spying affair AP

France and US seek to play down spy dispute

By John Ridding in Paris

France and the US sought to defuse a spying row at the weekend, as Mr Charles Pasqua, the French interior minister at the centre of the affair, came under increasing attack.

Rival politicians and the French press strongly criticised Mr Pasqua for fuelling the dispute, which centres on a report that the French government requested the withdrawal of five alleged CIA spies. The row has exacerbated divisions on the French political right, already shaken by feuding ahead of the spring presidential election.

Mr Al Gore, the US Vice-President, said on Saturday there was no crisis in relations between France and the US. "The US-French relationship is a very strong relationship," he said in Brussels, where he was attending a Group of Seven conference.

Mr Gore's comments followed attempts by Mr Edouard Balladur, the French prime minister, to calm the row, which had been reignited by Mr Pasqua on Friday. The powerful interior minister, a close ally of Mr Balladur, had blamed US delays in resolving the issue for the leak of the espionage report.

The French prime minister said that there would be no further public discussion of the matter. But opponents on the left, and supporters of Mr Jacques Chirac, the Gaullist mayor of Paris and one of Mr Balladur's principal rivals in the presidential contest, stepped up their attacks on Mr Pasqua.

Mr Alain Juppé, foreign minister and an ally of Mr Chirac, denounced "pyromaniacs who try to exploit false quarrels", in a thinly veiled attack on the interior minister.

French newspapers attacked Mr Pasqua for encroaching into foreign affairs and expressed concern that he is trying to divert attention from a scandal which brought himself and Mr Balladur under fire for authorising an illegal wire-tap. "The careless management of the crisis is ridiculing France and those who claim to govern it," said Libération, the leftwing daily.

The press argued that Mr Pasqua's involvement in the wire-tapping scandal and the spy row had transformed him from an asset into a liability for the prime minister. But most newspapers played down the prospect that Mr Pasqua might be forced to stand down, arguing that he provided valuable rightwing support to Mr Balladur and that the prime minister could not afford a fourth departure from his government. Three ministers have resigned over corruption scandals in the past year.

The Socialists seized the opportunity to capitalise on the feuding on the right. Mr Lionel Jospin, the party candidate, said the turmoil "augurs badly for what France would become if the president was Balladur or Chirac". Reflecting his rising confidence and opinion poll standing, he said he would dissolve the national assembly, currently dominated by the right, should he win the April/May election.

Walesa adds fuel to Polish political fire

By Anthony Robinson and Christopher Bobinski in Warsaw

The Polish political crisis is expected to intensify this week after President Lech Walesa's admission that he was unhappy with many of the ministerial nominations for for a new government. His remarks, on his return from a week-long official visit to Latin America, have raised fears that the crisis over the formation of a new cabinet could drag on indefinitely and possibly lead to early elections.

In his absence, the political climate was further inflamed by an angry public row between Mr Grzegorz Kolodko, the minister of finance, and Mrs Hanna Gronkiewicz-Waltz, governor of the National Bank of Poland, over interest rate and foreign exchange policy.

The National Bank chief raised central bank refinancing rates by 3 per cent to a maximum of 35 per cent last week without consulting the finance minister.

Earlier she had announced a reduction in the automatic "crawling peg" devaluation of the Polish zloty from 1.4 to 1.2 per cent a month. The "crawling peg" automatically ratchets the currency downwards to compensate for rises in domestic prices, which in January rose 3.9 per cent compared with the previous month and are predicted to rise by 2 per cent in February.

The central bank's decision on rates surprised Polish commercial banks which were preparing to lower their own rates before it decided to signal its anti-inflationary resolve.

Last week the central bank drained liquidity from the banks by open-market bond sales and expects to see money market rates rise this week.

Mr Kolodko, who argues that Poland needs lower interest rates and a much slower pace of devaluation to reduce the inflationary impact of strong foreign currency inflows, responded on Friday by authorising the borrowing of $100m from the Paris branch of the Polish savings bank PKO at a lower rate of interest.

He also announced a four-month suspension of the 0.2 per cent tax on sales of shares, which led to a 7.5 per cent rise in the Warsaw stock exchange main indicator. The all-share WIG index rose to 6,903 in heavy trading on Friday after the announcement.

Mr Kolodko said he was forced to borrow the money abroad because of liquidity problems caused by President Walesa's refusal to sign the 1995 budget into law.

The cental bank chief was nominated by the president and the conflict between the two senior monetary officials is seen as part of the wider power struggle between the president and the former Communist-led coalition partners.

Mr Walesa yesterday said he would be "suggesting some changes" in the proposed list of government ministers and hinted strongly that Mr Kolodko should be dropped from the list proposed by Mr Jozef Oleksy, the speaker of parliament, who has been charged by the government coalition parties to try to form a new administration.

Mr Oleksy is due to meet President Walesa this morning to present his proposed list of ministers. He is scheduled to seek parliamentary approval on Friday, which would permit formation of a new government led by the Democratic Left Alliance by this weekend. But Mr Oleksy has suggested that he could well give up the mandate to form a new government if this leads to further conflict with the president.

Mr Walesa has already indicated that he will insist on his own candidates for the ministries of defence and foreign affairs, but opposition to candidates for economic and other ministries could well prolong the crisis indefinitely.

Ethnic divisions deepen in Macedonia

By Kerin Hope

The Macedonian government's decision to close a university set up by the ethnic Albanian minority is deepening divisions between Slavs and Albanians in the ex-Yugoslav republic.

Albanians make up 22.9 per cent of the 1.9m population, but hold only a few senior jobs in the civil service or the large state-owned companies that control most business activity.

Now that Macedonia, squeezed between hostile Serbia and Greece, is emerging as a viable independent state having secured widespread international recognition and increasing economic aid, the Albanians are pressing harder for equal treatment with Slavs.

The privately funded university, which aims to provide courses in Albanian, is considered illegal by the government. Classes were suspended last week after only two days when an Albanian was killed in clashes with police at the campus outside Tetovo in western Macedonia.

According to Mr Ilijaz Halimi, leader of the Albanian People's Democratic party, Albanians make up more than 40 per cent of high school students in Macedonia but only 3 per cent of university students.

But Macedonian officials maintain the university was set to provoke a confrontation between Slavs and Albanians, citing a call by the rector, Mr Fadil Sulejmani, for volunteers to defend the university buildings with guns and grenades.

Mr Sulejmani, a former linguistics professor at Pristina University in the Serbian province of Kosovo, where the population is overwhelmingly Albanian, faces charges of inciting public disorder.

His outspoken criticism of the Macedonian authorities, together with the decision to launch the university without adequate funds to pay teaching staff or provide textbooks and equipment, lends weight to the government's accusations that education will take second place to political activism.

Yet as Macedonian intellectuals repeatedly point out, education must be liberalised if Macedonia is to establish its credentials as an ethnically diverse state where Albanians and other minorities like Turks and gypsies have equal opportunities with Slavs.

Slavs and Albanians have little contact, living in separate districts and attending different schools. Apart from education, Albanians say they are discriminated against when applying for jobs at state-owned companies and permits for setting up private businesses, or buying a plot of land to build a house.

President Kiro Gligorov has made efforts to promote an image of ethnic tolerance in contrast to the rest of the former Yugoslavia and has included in his government ministers from the moderate Albanian Party for Democratic Prosperity.

But Albanians complain the government has failed to implement promised reforms, which include opening up more civil service jobs to Albanians, increasing the numbers of Albanian teachers and reviving the Albanian studies department at Skopje University.

One result of the government's foot-dragging over minority rights has been the emergence of more militant Albanian politicians, who split the ethnic vote at last October's parliamentary elections.

The radical Albanians' threats to declare autonomy in western Macedonia have revived traditional Macedonian fears about the creation of a Greater Albania.

Nato balks at swallowing Russian 'sweeteners'

On the eve of Gore's visit to alliance HQ, Bruce Clark, Diplomatic Correspondent, reports on efforts to restore relations with Moscow

US Vice-President Al Gore will find an atmosphere of mounting apprehension over relations with Russia and the gloomy outlook in former Yugoslavia when he calls at Nato headquarters in Brussels today.

His visit coincides with delicate moves to restore the links between the western alliance and Russia which were rudely interrupted last December after Moscow objected to plans by Nato to take in new members.

He will meet Mr Willy Claes, the Nato secretary-general, who has come under pressure over a scandal in the Belgian Socialist party.

Senior western politicians have mapped out a strategy for rebuilding relations with Russia, but last week's visit to Washington by Mr Georgy Mamedov, Moscow's deputy foreign minister, produced no sign of an agreement to proceed along those lines.

Under the tentative western game plan, Moscow might be offered a formal Russia-Nato treaty, or some new forum for consultation, but it must restart the process by taking its existing accords with Nato out of cold storage.

Russia has objected strongly to the idea of Nato expanding eastwards rapidly, and none of the sops which the west has so far offered – including a draft letter from President Bill Clinton – seems enough to parry those objections.

Senior European diplomats said last week that they could see little prospect of the alliance agreeing to any of the more substantial "sweeteners" which might reconcile Russia to the idea of enlargement.

Such sweeteners would include formal recognition of the Commonwealth of Independent States – a Russian-dominated group of 12 ex-Soviet republics – as a security organisation; and the revision in Russia's favour of the treaty on Conventional Forces in Europe.

Either of these moves would run into objections from US conservatives, and from several European states, such as Norway and Turkey.

US efforts to reach an understanding with Russia over a new security order in Europe have been clouded recently by a raft of regional problems, inside and outside Europe, which Moscow and Washington approach from opposite sides.

These include Iraq – where Russia favours sanctions relief and the US strongly opposes this – and Iran, where Russian supplies of arms and technology have emerged as a serious irritant in the US-Russian atmosphere.

Another problem is posed by former Yugoslavia, where Mr Andrei Kozyrev, the Russian foreign minister, raised eyebrows this month by promising the leadership of Serbia quicker and fuller relief from sanctions than the west envisages.

The dubious outlook for peace efforts in former Yugoslavia have prompted Washington and its allies to refine their preparations for a withdrawal of UN peace-keepers from the conflict zone, an operation which Nato is expected to oversee.

US officials confirmed over the weekend that President Clinton is considering the despatch of thousands of US troops to protect UN forces in the event of a pullout.

The officials said a withdrawal from Croatia – from which President Franjo Tudjman has told UN forces to start leaving on March 31 – might render inevitable a much tougher operation to withdraw peace-keepers from Bosnia.

Co-ordination between Nato and the UN, which would be vital for the successful conduct of any withdrawal operation, has been marred this month by fresh recrimination.

UN officials have privately accused Nato – which is supposed to police the skies over Bosnia – of winking at a series of illicit arms drops to the republic's Moslem-led government, the latest of which was reported last Thursday.

The latest spat between the UN and Nato marks a reversal of last year's squabbles, when UN officials accused the alliance of being too conspicuous, and provocative towards the Serbs, in their aerial activity.

Now there is concern at the UN over the slackness of Nato activity, apparently reflected in a reduction of reconnaissance missions by Awacs aircraft, and slacker enforcement of the "no-fly" zone over Bosnia.

NEWS: ASIA-PACIFIC

US-China piracy deal yields bonus on market access

Beijing's copyright concessions may have broad trade implications, reports Tony Walker

In the end, it seems, Beijing blinked.

Ms Charlene Barshefsky, the US deputy trade representative, described yesterday's Sino-US agreement on intellectual property rights as a "win-win" deal. But there is no doubt that US negotiators made significantly more progress on enforcement and market access than seemed likely when negotiations began 20 months ago.

China made substantial concessions – on paper at least – on enforcement of laws against copyright violations and on market access issues. Such an apparently wide-ranging and detailed agreement represents something of a breakthrough although it is too soon to judge the durability of Chinese undertakings to deal comprehensively with the copyright problem.

A previous Sino-US copyright agreement, struck in January 1992, proved to be deeply flawed. Counterfeiting of all manner of information and entertainment products from computer software to films mushroomed into a $1bn industry in spite of 1992 undertakings to stamp out the practice.

US officials are fairly confident, however, that this latest agreement will result in a much enhanced Chinese enforcement effort. As reason for optimism they point to detailed understandings involving step-by-step and verifiable action against counterfeiters.

They also noted that, as a demonstration of good faith, China had closed seven pirate factories including the two most notorious plants – the Shenfei Laser and Optical System Co and Zhuhai Audio-video publishing house. These were shut down at the weekend on the eve of yesterday's deadline for the implementation of sanctions. China was also given credit for destroying some 2m pirate items since early this year as part of its attempt to demonstrate a commitment to the enforcement of its own regulations against copyright violations.

But perhaps more important, certainly in the longer term, is the apparent progress made on market access. This issue had loomed as a sticking point in the negotiations, with Beijing insisting that it had no place in the argument about the enforcement of laws against violation of patents, copyrights and trademarks.

Chinese negotiators had urged that such issues be dealt with in the context of both the World Trade Organisation negotiations (China is seeking entry) and a bilateral market access agreement concluded in October 1992. But in the event Beijing yielded to US arguments that improved access for legitimate information and entertainment products was one way to counter piracy.

If China lives up to its undertaking to allow international companies involved in such activities to enter the Chinese market either through ventures on the ground or through imports, the US will have rendered a valuable service to the publishing and information industry internationally – whether it be books, film, music or computer software.

Beyond enforcement and access, yesterday's agreement may well turn out to have broader trade implications still. China may at last be beginning to understand that if it is to realise its oft-stated desire of becoming fully integrated in the world trading community it must adhere to broadly accepted rules and regulations.

Beijing's acceptance that it could no longer get away with turning a blind eye to flagrant abuses is a useful development although it would be too much to expect a more compliant China overnight.

The agreement also has clear implications for the WTO negotiations. While not directly linked, the fact that China appears to have accepted US arguments on the need for much improved access for information and entertainment products holds promise for a more flexible approach on other market access issues such as the entry of service organisations like banks and insurance companies.

The agreement also represented something of a victory for US persistence in negotiations. China yielded when it realised that its own interests and reputation dictated compliance.

Without a determined US approach, including a willingness to risk a trade rupture, it is highly unlikely Beijing would have given as much ground as it appears to have done.

But the apparently satisfactory conclusion of the copyright dispute does not mark the end of trade troubles between the US and China. Other issues loom, including a textile dispute and the stalled talks on entry to the WTO.

The copyright issue was relatively clear-cut but even so it took almost two years to resolve and then only after sanctions were threatened. The WTO issue is more politically complex.

While agreement on the copyright dispute might facilitate a resumption of WTO negotiations, the chances of an early agreement are not promising. China has said that it is unwilling to make what it describes as further significant compromises on trade liberalisation and market access. Beijing has been calling on the west, and the US in particular, to drop "exorbitant demands" over WTO entry.

Ms Wu Yi, China's trade minister, yesterday cited the WTO issue as one of the lingering trade problems with the US. Trade irritations, it seems, are set to continue.

Police stand guard in a makeshift bunker in Karachi yesterday *Reuter*

Military admits E Timor error

By Manuela Saragosa in Jakarta

Indonesia's army has admitted that six people killed by its soldiers in the politically disputed territory of East Timor last month were victims of mistaken identity.

The military said that the victims had been unarmed civilians and not, as originally alleged, armed members of East Timor's independence movement. Military officials were quoted in local newspapers as saying that there had been "a violation of procedures" and that the soldiers involved would be "firmly punished".

The killings on January 12 in Liquisa district followed the reported killing of three people by Indonesian soldiers during pro-independence rioting on New Year's Eve in the East Timorese town of Baucau.

In spite of reports of unrest in East Timor, a Portuguese colony until abandoned by its colonial administrators and invaded by Indonesia in 1975, Jakarta insists that most of the region's native Timorese support Indonesian rule. The United Nations does not recognise Jakarta's sovereignty and Portugal continues to challenge Indonesia's claims.

Over the past year, talks have taken place under UN auspices between Timorese groups favouring integration with Indonesia and those favouring independence.

Marshal's death clears way for N Korea shake-up

By John Burton in Seoul

The death of Marshal Oh Jin-u, the North Korean defence minister, is likely to accelerate the transfer of power to a younger generation of officials closely associated with the country's new leader, Mr Kim Jong-il.

Marshal Oh, who died on Saturday from cancer aged 78, was the second-ranking official in the hierarchy after Mr Kim, the son of President Kim Il-sung who died last July.

The death of the marshal and that of Kim Il-sung leaves the 53-year-old Mr Kim as sole surviving member of the three-man politburo of the ruling Korean Workers' party.

Mr Kim has been preparing to promote a new generation of officials to succeed those brought to power by his father after the second world war.

Analysts believe that the generation associated with Mr Kim is more pragmatic than the first generation of "revolutionaries". Its leaders appear to be pushing for the opening of isolated North Korea, including attracting foreign investment and promoting limited economic reforms.

The first step in the pending reshuffle could occur in April when Mr Kim may use the convening of parliament to name two new politburo members. Mr Kim may also then complete his official takeover as head of the ruling party and national president.

Marshal Oh's death also gives Mr Kim the chance to strengthen his control over the military.

Although Marshal Oh was a strong supporter of Mr Kim, there have been indications that other senior military officers have expressed doubts about Mr Kim's capability. In a rare sign of dissent last autumn, the military criticised key elements of the US-North Korean nuclear agreement approved by Mr Kim.

The 77-year-old Vice-Marshal Choe Gwon, a hardliner who serves as chief of staff of the North Korean armed forces, is likely to succeed Mr Oh as defence minister. However, analysts believe that Mr Kim will appoint generals in their 50s to other senior positions.

Karachi murders step up sectarian tension

By Farhan Bokhari in Islamabad

Police in Karachi have stepped up their search for the killers of 20 Shia Moslems after one of Pakistan's worst outbreaks of sectarian violence. The victims were gunned down while praying at mosques on Saturday during the holy fasting month of Ramadan. The murders have further increased tension between hardline members of the majority Sunni Moslems and the minority Shia Moslems.

At least 36 people were arrested yesterday in a police crackdown on Islamic activists. The suspects were mostly members of radical Sunni groups, which in the past have vowed to kill Shia Moslems. Yesterday Karachi, Pakistan's commercial hub, was tense, with many businesses shut.

Karachi is the country's leading port and a trading and banking centre. Many foreign companies have their headquarters in the city which is home to Pakistan's biggest stock exchange. Yesterday the exchange dropped by 1.2 per cent to close at 1,857.60.

Mr Ikram Sehgal, chairman of SMS security, Pakistan's largest personal security company, said during the past three months his company had received inquiries from up to 30 prospective clients in Karachi each day, a three-fold increase. This, he said, indicated growing fear among businessmen.

Yesterday in Karachi, young Shia activists belonging to the hardline *'Sipah-i-muhammad'* group of radicals fired Kalashnikov rifles in the air. Shia activists were also seen with white cloth bound around their foreheads, symbolising a coffin and shouting "blood for blood".

The latest round of violence comes less than a week after at least 25 leaders of rival religious parties were arrested in the province of Punjab, in a crackdown on hardline Islamic activists.

In recent months, the government has expressed concern at reports of so-called "armed training" for young activists at hundreds of religious schools across the country. The government has threatened to cut off official funding for the schools in an effort to choke them financially and bring them into line.

These religious schools have risen rapidly in the 1980s. Saudi Arabian and Iranian funds are widely thought to be the main funding agencies as the two countries – the leading Sunni and Shia states – faced up to each other, in effect, by proxy.

But the trouble in Karachi has a broader dimension. The city has become increasingly ungovernable, a victim of intense infighting within the Mohajir Qaumi Movement, the city's largest political party representing Moslem immigrants from India.

In the past three months, the Mohajirs' fighting, in the political arena and at street-level, has paled beside the increasingly open belligerency of well-armed Sunni and Shia factions.

There is no apparent connection between the political and religious strife, though some police officials suspect that the breakdown of security due to the political troubles may have convinced religious leaders to use the opportunity for settling scores. Last year, at least 800 people were killed in religious and sectarian clashes in Karachi.

Ms Benazir Bhutto, the prime minister, has called for calm but seems helpless to stem the tide of violence. "Islam teaches affection, tolerance and brotherhood," she was quoted as saying by APP, the official news agency. "There is no place for terrorism and sectarianism in Islam." Pakistan's opposition leaders were quick to denounce the government for its apparent inactivity. Mr Raja Zafar-ul-Haq, an opposition senator, said: "If the government is serious in resolving this [Karachi] issue, it must take the opposition into confidence."

Clinton attack on balanced budget

By George Graham in Washington

The White House has launched a last-minute attack on a plan to change the US constitution to require the government to balance its budget by 2002.

The balanced budget amendment, which passed the House of Representatives last month, will come to a vote in the Senate tomorrow. Supporters of the amendment say at least 64 senators are firmly committed to voting for the measure; they would need only another three waverers to reach the two-thirds majority necessary.

President Bill Clinton cannot veto a constitutional amendment, though it would still need to be ratified by the legislatures of three-quarters of the states. But after weeks of muted criticism, he stepped up his assault on the balanced budget plan this weekend.

In his weekly radio address on Saturday, Mr Clinton attacked the balanced budget amendment as an abrogation of responsibility by the elected members of Congress.

"The amendment doesn't really balance the budget, it simply requires Congress to come up with a drastic combination of cuts and tax hikes, and to cram them in by a date certain, no matter what the other economic impacts might be," Mr Clinton said.

He said that writing a balanced budget requirement into the constitution would put power over the budget into the hands of unelected judges and the Federal Reserve.

The possibility that spending decisions could end up in the courts has worried several influential senators, such as Senator Sam Nunn of Georgia, who are otherwise sympathetic to the goal of bringing the budget deficit under a more rigid system of controls.

Republican sponsors of the amendment said its fate depended on Senator Nunn and four other Democrats – Senators Kent Conrad and Byron Dorgan of North Dakota, Senator Wendell Ford of Kentucky and Senator Dianne Feinstein of California – along with one hesitant Republican, Senator Mark Hatfield of Oregon.

Mr Clinton spent much of the weekend telephoning these senators, while Republican Senator Larry Craig of Idaho urged him to "call off the dogs and let senators vote their consciences".

The text of the amendment says that total government spending in any year shall not exceed total receipts in that year, unless three-fifths of each chamber of Congress vote to waive the restriction. The restriction may also be waived by a simple majority of both chambers in the event of war.

Many states have balanced budget requirements in their constitutions, but they usually get around them by fictitious privatisation of prisons or transport links, or by a three-fifths vote to waive the limit. One of the most hilarious spectacles on Capitol Hill in recent memory was Senator Strom Thurmond of South Carolina testifying to a congressional committee that, because of its balanced budget requirement, his home state was able to borrow money more cheaply than the federal government.

In fact, some academics argue that balanced budget rules have actually increased spending in some states by increasing the leverage of individual legislators whose vote is needed to pass the waiver.

Attorney general alleges Colosio cover-up

'Two gunmen' killed Mexican candidate

By Ted Bardacke in Mexico City

Mexico's attorney general, Mr Antonio Lozano, unleashed a political bombshell over the weekend, charging that two gunmen were responsible for last year's assassination of Mr Luis Donaldo Colosio, the ruling party's presidential candidate.

Mr Lozano, a member of the conservative opposition National Action party, also said previous investigators tampered with evidence to cover up the conspiratorial nature of the killing of Mr Colosio, who had been expected to win the Mexican presidency in last August's elections. Two special prosecutors appointed by former president Carlos Salinas had won the ridicule of the Mexican public by claiming that Mr Colosio had been shot by a lone deranged gunman.

Mr Lozano said the original investigation of the assassination killing was plagued with "irregularities" and that "there is no doubt that the scene of the crime was manipulated". He said a bullet found in a pool of blood at the scene of the crime had been planted to cover up the fact that two different guns were used in the killing.

The second gunman, identified as Othon Cortez Vazquez, was arrested on Friday morning, the attorney general said. Also taken into custody on Saturday was Fernando de la Soto who, as leader of one of the groups in charge of Mr Colosio's security on the day he was shot, hired Mr Cortez, according to the attorney general. Both Mr Cortez and Mr Soto were former agents of the Federal Directorate of Security, Mexico's now-defunct internal spy network.

Mr Cortez was also photographed soon after the assassination driving in a car with Gen Domiro Garcia Reyes, Mr Colosio's chief bodyguard and overall head of security. A confirmation that the assassination was an inside job is likely to be seriously damaging to the ruling Institutional Revolutionary party (PRI). The attorney general said investigations into who ultimately ordered the killing were continuing. Other government officials said drug traffickers and PRI officials were likely suspects.

Current Mexican President Ernesto Zedillo, who was Mr Colosio's campaign manager and took over the PRI candidacy after the killing, could reap a political windfall by fulfilling his campaign pledge to find the killers. But Mr Zedillo could still run into trouble if prominent members of the former Salinas administration, with whom Mr Zedillo is closely linked, are implicated in the cover-up.

Mexican officials had yesterday still not convened a meeting of labour unions and business leaders to negotiate a new *pacto*, the wage and price agreement which will include new government projections for the country's economic performance in 1995 and new austerity measures designed to clamp down on inflation and public spending.

There were conflicting reports about whether the government would unilaterally announce the new plan or keep the traditional *pacto* mechanism in place. Labour leaders reiterated their demands that wages be raised beyond the 7 per cent rise already granted this year, and some investors believed some taxes might be raised.

Argentina plans to woo markets with $1bn cuts

By David Pilling in Buenos Aires

Argentina's President Carlos Menem plans to cut spending by a further $1bn this year to convince sceptical international markets that the country can control its budget.

The cuts, announced at the weekend, are to be achieved largely by merging ministerial departments, and follow a previous round of savings last December. Argentina then trimmed its budget outlays by $1bn to $42bn, following the devaluation of the Mexican currency.

"We are all a little drunk from the Tequila effect," President Menem said during a visit to South Africa. "I want to underline that we will take immediate measures." It would by "hypocritical" to postpone cuts until after this May's presidential elections, he said.

In Buenos Aires, Mr Marcos Makon, the budget under-secretary, said savings would "demand the complete overhaul of the state, as we will have to merge departments and avoid overlap".

The administration hopes its action will convince markets it can meet budgetary targets laid out in the "Plan 1995" document presented by Mr Domingo Cavallo, the economy minister, after Mexico's crisis.

Until now, Argentina's attempts to distinguish itself from Mexico have had only limited success – the stock market and some government bonds have plunged by 30 per cent since December.

Many economists have questioned the government's ability to balance its accounts, given the expected sharp drop in economic activity as a result of slowing capital inflows. Although the government is sticking to its forecast of 4.5 per cent growth for this year, most private consultants are predicting 1-3 per cent.

Doubt has centred on the feasibility of plans to lift tax revenues by 11 per cent, mainly through a crackdown on evasion which, it is claimed, will bring in an extra $1bn. An IMF team, recently in Argentina, had expressed "some differences of opinion" over tax revenue projections, an economy ministry official admitted.

Argentina's slimmed-down budgetary targets will be subjected to quarterly IMF audits if an "enhanced monitoring" accord is approved. Argentine officials say it should be in place within months.

Canada faces tough budget to tackle debt

By Bernard Simon in Toronto

Mr Paul Martin, Canada's finance minister, will today seek to calm nervousness about Ottawa's towering debt by unveiling the toughest federal budget in many years.

Mr Martin is expected to announce a raft of spending cuts and tax increases designed to demonstrate his determination to bring Canada's budget deficit down to 3 per cent of gross domestic product within the next two years, from 5.4 per cent in the year ending March 31.

He is under pressure, however, to go further. Echoing many market analysts, economists at Toronto-Dominion Bank said in a commentary last week that "the future path of the Canadian dollar remains uncertain unless the minister provides a time frame for balancing the federal budget."

The federal debt, totalling C$540bn (£243bn), has ballooned from 29 per cent of gross domestic product in the early 80s to 71 per cent in the current fiscal year. Foreigners hold C$313bn of the total, equal to 44 per cent of GDP. This compares to 12 per cent of GDP in Italy.

Canada's 10 provinces are also heavy borrowers, bringing the total debt-to-GDP ratio to about 100 per cent.

Nervousness about the fiscal situation has risen with the flight of capital from Mexico, the tightening of US monetary policy and a recent decision by Moody's, the New York bond-rating agency, to review Canada's triple-A credit rating.

The Canadian dollar slid from 74 US cents last October to a nine-year low of 70 cents last month. It closed just below 72 cents last Friday, following a sharp increase in domestic interest rates.

Canadian banks' prime lending rate has soared from 5.5 per cent to 9.5 per cent in the past year.

Canadians were given a foretaste of the budget last week with news that 45,000 civil servants, or about one in five, will lose their jobs over the next three years. The government is also paring a generous pension scheme for members of parliament.

Public opinion currently favours spending cuts rather than higher taxes to bring down the budget deficit. But the ruling Liberal Party caucus is divided over severe cuts in social services, which would be necessary to make a significant dent in the shortfall.

As a result, Mr Martin has indicated he will also raise numerous taxes and close tax loopholes. The heaviest burden is expected to fall on companies and wealthy individuals.

INTERNATIONAL PRESS REVIEW

Tunis turns its back on Algiers carnage

TUNISIA

By Roula Khalaf

The carnage of an Algerian prison riot was front page material in newspapers around the world, but not in *La Presse*, one of neighbouring Tunisia's two largest dailies. The French-language daily deemed Bosnia, French politics, and even the crossing of the Pacific by hot-air balloon more important stories. The prison mutiny was relegated to page 8.

When it was revealed that Algerian security forces had killed at least 100 prisoners, *La Presse's* headline on Friday read: "The mutineers of the Algiers prison were armed." For the Arabic daily *Alsahafa*, meanwhile, the assault by security forces "saved hundreds of prisoners' lives". The escalation in Algeria's three-year civil strife weighs heavily on the mind of the Tunisian government, which is why the government wants Tunisians not to focus on it.

After flirting with the idea of legalising a popular Islamist party in the late 1980s, Tunisia in 1991 moved to crush its Islamist movement. When the Algerian government followed the Tunisian model in 1992 and cancelled elections as the Islamists were poised to win, the Tunisian press trumpeted the move.

But things did not turn out exactly as Tunisia had hoped. Algeria's attempts to "eradicate" the Islamists has failed and reports of government's abuses mounted. The Tunisian press reacted by playing down gains by Algerian Islamists and government brutalities.

For example, a visit by the Algerian foreign affairs minister, Mr Mohamed Salah Dembri, to Tunis, the Tunisian capital, last week was greeted with front page stories by leading newspapers, but readers were given few details about the visit. A government communiqué – a mere three paragraphs – made no mention of the Algerian conflict.

The communiqué said only that the Algerian official was "delighted" to be in Tunisia and had "the honour of meeting (Tunisian) President Zine El Abidine Ben Ali". Mr Dembri passed on "greetings from his brother [Algerian] President Liamine Zeroual, who sends his wishes for the increased prosperity and success of the Tunisian people".

An opposition newspaper calls for a clean-up of the press

But, in Tunis last week, the hottest word-of-mouth news was an attack earlier this month by an Algerian Islamist commando on a Tunisian border post, which left six Tunisian guards dead. Tunisian papers dutifully followed the government line and simply reported that a patrol car skidded and fell into a ravine, resulting in casualties.

Technology has allowed French television into Tunisian homes, and the satellite dishes now dotting Tunisian rooftops provided news of the attack. Aware of the power of this medium, the government last year decided to halt introduction of new dishes.

In the last few years, Tunisia has waged a systematic campaign to eradicate the concept of Islamic fundamentalism from Tunisian society and to create a modern state, modelled after the east Asian tigers.

The press has emerged as an integral part of this strategy. You won't find lurid tabloids on Tunisian news stands. The most popular topics are the gains achieved by women and the growing achievements of the economy.

Last week's issue of *Synar*, which dubs itself "the magazine for the happy family," profiled the successful ascent of women in the insurance industry. The business magazine *L'Economiste Maghrebien*, meanwhile, led with an investigation about the country's emerging stock market. An article in *Info Credit*, a business/women's magazine, searched through Koranic verses to inform people that Islam does sanction abortion.

While the press is heavily controlled, it has also come to mirror the concerns of Tunisian society. Few Tunisians want to worry about an Algeria plunged deeper into a cycle of violence. Although they are well aware that a collapse of the Algerian government could generate trouble at home, there is a sense that the Tunisian government policies and the 5 per cent average annual growth rate achieved over the last five years are working to contain Islamic extremism.

As many Tunisians point out, they would like all to be well in "the small dragon of Africa," as the press calls the country.

INTERNATIONAL NEWS DIGEST

ANC tightens up discipline

South Africa's ruling African National Congress yesterday announced creation of a disciplinary committee whose targets appeared likely to include President Nelson Mandela's estranged wife Winnie. The party's policy-making national executive committee said the disciplinary body would investigate "any activity or conduct by members in breach of the ANC constitution and codes of conduct".

Mrs Mandela, who is deputy minister of science, arts and culture in her husband's government, is at the centre of several controversies. Eleven senior members of the ANC Women's League quit this month in protest at her leadership of the body and her management of funds. She is currently in west Africa on a visit undertaken in defiance of instructions from Mr Mandela that she should not go.

The ANC, in another apparent reference to Mrs Mandela, said the national executive committee agreed it should be more active in helping ANC political representatives "avoid the pitfalls inherent in the lobbying and other commercial activities of the private sector and other forces". It ordered all members of the Women's League executive, including those who resigned, to hold an urgent meeting to resolve problems in the league. *Reuter, Cape Town*

Russian nationalist woos Iraq

Mr Vladimir Zhirinovksy (*pictured below*), the ultra-nationalist Russian politician and probable presidential candidate, yesterday urged Moslems and Orthodox Christians to form an alliance in opposition to the west. Speaking in Baghdad, Mr Zhirinovsky also urged the United Nations to lift sanctions against Iraq and praised Mr Saddam Hussein, the Iraqi leader whom he is meeting this week. Mr Zhirinovsky went to Baghdad with a delegation of 50 Russians including two generals

from the defence ministry, 20 parliamentary deputies, and several businessmen.

But US officials indicated they were prepared to use their UN Security Council veto to ensure that international sanctions – imposed against Iraq in 1990 after its invasion of Kuwait – remained in force. Ms Madeleine Albright, the US ambassador to the UN who is visiting Kuwait, said President Bill Clinton had made clear the US's determination to ensure "that Iraq complies with all its obligations before there can be any action to modify the sanctions regime". *John Thornhill, Moscow*

China takes to computers

Personal computer sales in China are expected to top 1m this year, an increase of about 30 per cent over last year. "Demand for computers will be further stimulated as the country launches major information infrastructure projects," the official China Daily Business Weekly said. The paper, quoting the powerful Ministry of Electronics, said "an increasing number of computers will be used to renovate traditional industries".

Computer sales reached Yn40bn (£3bn) last year, and are expected to top Yn55bn this year, making China the world's fastest growing computer market. About 700,000 PCs were sold in China in 1994, up from 450,000 in 1993. Foreign suppliers, led by AST and Compaq of the US, had secured about 80 per cent of the market, according to Ministry of Electronics figures. Other active US companies include Hewlett-Packard and IBM. Apple Computer is also moving into China.

■ Autodesk, the US software company, has signed an agreement with China's State Science and Technology Commission to develop software packages for local consumers. The company is selling 100 copies of its CAD software packages to China. *Tony Walker, Beijing*

Tajikistan goes to polls

Tajikistan voted yesterday for a new parliament, with interim turnout figures reinforcing the view taken by independent observers that the elections were a staged bid to reinforce President Imomali Rakhmonov's power. Two hours before the polls closed, 84 per cent of the Central Asian state's 2.6m electorate had voted, an election commission spokesman said. Voter participation in the capital Dushanbe was 61 per cent, but was headed for Soviet-style levels in the southern region of Khatlon, at 90 per cent.

Observers have already written off the polls as undemocratic and with 40 per cent of seats in the 181-seat parliament uncontested its solid backing is assured for Mr Rakhmonov. The Party of Popular Unity, headed by last year's defeated presidential candidate Abdulmalik Abdullajanov, pulled out of the polls on Friday, blaming violations of election law and official pressure on its candidates. *Reuter, Dushanbe*

Yemen-Saudi border meeting

Yemen and Saudi Arabia agreed at the weekend on a framework for talks to resolve a 60-year old border dispute, according to officials in Aden. The memorandum of understanding, under which both countries agreed to resume talks within 30 days, was signed in Mecca by Mr Abdulqader Bajammal, Yemen's deputy prime minister for planning and development, and Prince Sultan Bin Abdul-Aziz Al-Saud, Saudi Arabia's defence minister. The presence at the meeting of Yemen's parliamentary speaker, Sheikh Abdullah Bin Hussein Al-Ahmar, head of the Islamic Islah party in the Yemen government coalition and a key tribal supporter of President Ali Abdullah Saleh, gives added weight to Yemen's commitment to resume full talks. Yemen-Saudi relations hinge on the 1934 Taif agreement, due for renewal every 20 years, most recently last October. Since then talks have been held spasmodically, but there have been frequent border clashes, with each side accusing the other of violating territory. *Robin Allen, Aden*

Uganda debt deal queried

The value of last week's partial write-off of Uganda's Paris Club debt, is worth substantially less than claimed, according to an analysis by Oxfam, the British aid agency. Uganda became the first country to benefit from enhanced debt reduction terms, agreed by the Group of Seven leading industrialised countries at their annual summit in Naples last year. The package was said to have been worth 67 per cent of the debt owed to the Paris Club of official creditors. But the Oxfam analysis calculates that "the total write-offs amount to approximately $89m, or 49 per cent of the pre cut-off date debt and 26 per cent of the total Paris Club debt outstanding of $335m." *Michael Holman, Africa Editor*

Economic uncertainty grows

European entrepreneurs have become more confident about the performance of their own companies, but less so about the economies in which they operate, according to a new survey. Confidence in economic conditions has declined for the first time since early 1993, according to the twice yearly survey of European business executives by 3i, the investment capital provider. Optimism has waned in Britain, France and Italy over the past six months, while remaining flat in Germany and improving in Spain. *Robert Chote, London*

Loopholes nourish illegal tranquilliser network

Several nations are blamed for not acting on drug treaties, says Ian Hamilton Fazey

The failure of Austria, Belgium, Canada, Luxembourg, New Zealand and Switzerland to either sign or implement an international drugs treaty is partly to blame for the rise in a new form of drug smuggling, according to a United Nations report published today.

The Vienna-based International Narcotics Control Board, in its annual report, says a new illegal drugs market is emerging worldwide in benzodiazepines – tranquillisers. Legally manufactured drugs are being diverted into illegal markets through seemingly legitimate wholesale companies which buy in bulk from countries with poor or no controls over the trade.

The agency says legal loopholes worldwide are allowing the international illegal drug trade to flourish. A global legal framework already exists for stamping out much of the criminal drug trade, but it can only work if countries sign treaties.

Austria, Belgium and Switzerland have long promised the UN they would accede to the 1971 Convention on Psychotropic Substances – one of three main international treaties covering illegal drugs – but have not done so.

"The failure of those manufacturing and exporting countries to control trade in many addictive psychotropic substances [so called because they alter mood] has had a negative impact on international drug control," the agency adds.

It notes that Canada, Luxembourg and New Zealand – where pharmaceuticals can also be bought wholesale – have not yet implemented controls over their international trade in tranquillisers, even though they are parties to the 1971 treaty.

The board says "dozens of millions" of tranquilliser tablets were diverted into illegal markets last year, but according to Prof Hamid Ghodse, president of the board, actual diversions were several times higher than official reports suggest.

One effective smuggling technique has been to set up legitimate trading companies to buy pharmaceuticals from drug manufacturers in developed countries, ostensibly for re-export to the third world. The drugs are then diverted back into Europe or North America for street sale.

The trade also applies to precursors, particularly ephedrine, the raw material for making amphetamine-based stimulants such as "ice" and "ecstasy". The board has traced 50 tonnes of ephedrine which eventually found their way into clandestine US laboratories last year. This was enough to make about 1bn street doses of methamphetamine, the chemical name for "ice".

Canada is the main source of of black market tranquillisers sold illegally in the US, according to the agency.

Typically, a company would be set up in the Bahamas. It would buy pharmaceuticals made in Canada from a local wholesaler, avowedly for onward sale to other countries in the Caribbean. But such companies are often set up as a front by drug traffickers.

Between 1992 and last year, one such company in the Bahamas smuggled legitimately purchased tranquillisers into the lucrative criminally organised, illegal US drug market.

The traffickers were eventually detected and caught by the Bahamian and US authorities, but they got their supplies because Canada has not implemented controls over the export of tranquillisers – in spite of the country being a signatory to the 1971 UN Convention.

Luxembourg and New Zealand have acceded to the treaty but failed to implement controls which it demands. In Austria, which has failed to accede to the Convention, the board says large quantities of flunitrazepam, a powerful tranquilliser, were diverted to the black market from the retail supply chain. The drug dealers could not be prosecuted because Austria's failure to fulfil a promise to the UN to sign the treaty meant there were no relevant laws.

The reports says large quantities of ephedrine have been shipped from the Czech Republic via brokers in Switzerland to secret, illegal laboratories in Mexico and the US.

Apart from attacking developed nations for allowing unmonitored exports of controlled drugs, the board says Africa appears a weak link in international control because 14 countries in the continent are not yet parties to any of the three treaties.

Nigeria, Kenya, Tanzania, Angola, Namibia and South Africa are cited as the main targets of traffickers.

In Central America and the Caribbean, the board names the Netherlands Antilles as an emerging staging post for Colombian, Venezuelan and Surinamese cocaine en route to Europe and the US.

It also warns that last year's North American Free Trade Agreement could create loopholes for traffickers, but welcomes US and Mexican agreements to try and counter it.

In South America, however, the board warns of the growing strength of the Cali cartel following the death of Pablo Escobar, the Medellin cartel chief, in 1993.

UN monitors are also worried about a softening attitude to drugs in Colombia following a high court ruling that penalties for possession of small quantities of cannabis, cocaine and methaqualone were unconstitutional.

Curb urged on powers of EU institutions

By James Blitz

A pan-European group of centre-right politicians will today launch a radical manifesto against further federalism in Europe, calling for a major reduction in the powers of European Union institutions.

In a new broadside against the integration of EU member states, the European Research group, which is composed of politicians from 20 countries, argues that the powers of national governments should be clearly "ring-fenced."

It argues that national governments should hold sway over taxation, local government, industrial policy and foreign affairs.

In a pamphlet, the group calls for the role of the European Commission to be reduced to that of "a civil service carrying out the will of elected ministers" without the right to initiate legislation. It also argues that the European Parliament "must be prevented from competing for power with national parliaments" and must focus simply on scrutinising the work of the Commission.

The European Research group, which came to its conclusions after holding two conferences last year, contains many of the leading Tory Euro-sceptics in the House of Commons. Among its members are Mr Michael Spicer, Sir Nicholas Bonsor, Sir Tom Arnold and Mr Alan Duncan.

The group has also received a mild endorsement from Mr John Major, the UK prime minister, who – in a foreword to the pamphlet – commends its "distinctive opinions."

Publication of the document comes just two days before the government faces a cliff-hanger vote in the Commons on its EU policy.

Most of the nine Euro-sceptic rebels outside the conservative whip made clear last week that they were unlikely to support the government in Wednesday's motion, which has been proposed by the Labour party.

However, in a television interview, Mr Jeremy Hanley, the party chairman, called on the rebels to demonstrate their support for the government in Wednesday's vote.

"Those who do vote for the Government on Wednesday will be in a different position from those who do not. That is clear," he said. "It will be a step in the right direction if they support the government because that was what they were elected to do."

Former prime minister Sir Edward Heath called on Mr Major to use Wednesday's debate to spell out a positive vision of Britain's role in the community. "What I want him to do is to repeat what he said when he first became Prime Minister, that Britain must be at the heart of Europe. We haven't heard it for two years," he said.

Irish peace moves may hit arms obstacle

By John Murray Brown in Belfast and James Blitz in London

The British government yesterday toughened its stance on the inclusion of Sinn Féin in the Northern Ireland peace process by warning that the IRA would first have to make "substantial progress" in decommissioning its weapons.

As nationalist and unionist politicians continued to digest the Anglo-Irish framework document on the future of Ulster, Sir Patrick Mayhew, the Northern Ireland Secretary, put renewed pressure on the Irish nationalist side by stating that Sinn Féin had yet to make clear its commitment to democracy.

Speaking ahead of Wednesday's Commons vote on the government's European policy – when Ulster unionists are expected to vote against the government – Sir Patrick appeared to set new pre-conditions on Sinn Féin's participation in all-party talks on the future of the province.

He told BBC TV: "There has to be substantial progress made on the issue of decommissioning arms by the IRA in this exploratory phase of the talks before, so far as the Government is concerned, they can be brought into substantive negotiations."

"If somebody comes to the negotiating table with other constitutional parties but is known to have Semtex, ground to air missiles, heavy machine guns, mortars and so on, the implication is absolutely inescapable that they are prepared to resort to former violence if they don't get what they want round the table," Sir Patrick said.

Earlier this month, UK officials indicated the government would be prepared to include Sinn Féin in "more generalised political exchanges involving other parties" while the arms issue continued to be addressed in parallel talks.

But yesterday's remarks from Sir Patrick appeared to be an attempt to appease Ulster unionists who have been increasingly criticised following their reaction to the publication of the framework document.

It was unclear whether Sir Patrick had succeeded in swaying Ulster unionists from abandoning their traditional support in Wednesday's vote.

Mr Gerry Adams, the leader of Sinn Féin, also accused the government of trying to discriminate against and marginalise the nationalist people in the province.

"How on earth does he (Sir Patrick) hope to make progress if he refuses to accept Sinn Féin's mandate and persists in treating Sinn Féin voters as second class citizens," Mr Adams told the BBC.

Europe's pockets may help change

Lionel Barber in Brussels on hopes for a new package of aid

Mrs Monika Wulf-Mathies, European Commissioner for regional affairs, arrives in Northern Ireland today bearing a new Ecus 173.9m aid package mostly devoted to strengthening cross-border links with the Republic.

The package is separate from the Ecu 300m "peace dividend" the EU agreed in December, and includes Ecus 16.9m for urban regeneration.

The chief purpose of Mrs Wulf-Mathies' trip is to meet community groups and local political leaders in an effort to determine how best to spend the peace dividend. She will visit the Shankill and the Falls areas of Belfast, hit hard by terrorist violence over the past 25 years.

The commissioner, a sparky Social Democrat who ran Germany's powerful public sector workers' union before arriving in Brussels last month, will hold talks with Ulster's leading politicians, including the Rev Ian Paisley, Mr John Hume, and Mr James Nicholson, who are all MEPs.

"The European Union is not just about high diplomacy and filing anti-trust cases," she said in an interview in her Brussels office, "We are dealing here with grass roots problems."

The Ecu 300m aid package is designed to support local initiatives in order to reinforce the near six-month-old cease-fire between the Protestant and Catholic communities, and to underpin efforts by the Dublin and London governments to reach a constitutional settlement in Northern Ireland.

The aid will be aimed at urban regeneration and assisting young people, like these in Londonderry

One of the toughest problems is how to transform a local economy which has grown overly dependent on public sector subsidies from London and the presence of the security forces, and to encourage the Irish communities to help themselves, says Mrs Wulf-Mathies.

Ideas include retraining for the long-term unemployed, courses on accounting, computer literacy, craftwork, marketing and strengthening links between border communities. But funds will also be spent on counselling for victims of terrorism and the province's youth who have known little else but violence for most of their life.

Mrs Wulf-Mathies has a warning for those who in the past have looked to Brussels to provide or approve huge subsidies to entice big corporations to come to Northern Ireland. "The task of the EU is not to put up money to bring in multinationals. We need to create the conditions for business, for example through training."

The peace dividend was agreed at last December's European summit in Essen, after heavy lobbying by Mr Jacques Delors, outgoing European Commission president.

The money will be spread over three years between 1995-98, with up to 80 per cent to be spent in Northern Ireland, and the remainder in the Republic's six border counties: Cavan, Donegal, Leitrim, Louth, Monaghan, and Sligo. The commission has recommended that at least 15 per cent of the total goes on cross-border activities such as re-opening roads, exchange programmes and stimulating trade and industry contacts.

The EU cash will fund up to 75 per cent of total spending, with the rest topped up from London and Dublin. Assuming the British and Irish government put forward worthy projects to the Commission in the coming months, Mrs Wulf-Mathies hopes to launch some initiatives in June or July.

The Ecus 173.9m package is drawn from the EU regional aid budget known as structural funds. Some Ecus 157m comes from the Interreg programme for strengthening links between regions of neighbouring member states.

UK NEWS DIGEST

Works councils ruling to have extensive impact

Up to 326 UK-based companies may have to establish a European works council to inform and consult their employees elsewhere in Europe, according to the first comprehensive survey of the subject published today.

It estimates as many as 860 corporate groups could be affected across the sixteen countries of the European Economic Area where the works council directive will apply. "Despite the UK's opt-out from the directive, the impact in terms of the number of corporate groups required to comply is likely to be much the same in the UK as in Germany and France", says the report published jointly by Industrial Relations Services and the Industrial Relations Research Unit at Warwick University. The study also calculates 76 corporate groups from outside Europe will probably be covered by the works council directive as well. The largest number – 46 of them – are based in the US.

The EU directive covers enterprises with at least 1,000 employees within the 16 EEA states, including at least 150 in each of two or more member states. *Robert Taylor*

Reinsurance improvement

The trading performance of reinsurance companies operating in the London insurance market has improved significantly in the past three years, according to a survey by a market trade organisation.

However, Ms Marie-Louise Rossi, chief executive of the London *Insurance and Reinsurance Market Association*, warned against any relaxation of underwriting standards.

The survey underlines the turnaround in reinsurers' profits since the early 1990s when heavy losses resulted in a period of consolidation and some companies withdrawing from the market. But Ms Rossi's comments come amid fears that premium rates on some reinsurance policies may have softened this year, threatening profitability. *Ralph Atkins*

Lloyd's council to meet

Prospects for settling out-of-court the many legal claims being pursued by lossmaking Lloyd's of London members will be reviewed this week by the insurance market's ruling council amid signs that significant hurdles to a deal remain.

Mr Peter Middleton, Lloyd's chief executive, will present a verbal report to Wednesday's council meeting on negotiations he has had with hard-hit Names, individuals whose assets traditionally supported the insurance market. Mr Middleton is expected to recommend that talks continue but it is unclear whether he will present concrete proposals. *Ralph Atkins*

Chain challenges book rule

Asda, the supermarket group, is mounting a fresh challenge to the controversial publishers' agreement which fixes the minimum price of books in the UK. The Publishers Association won an injunction earlier this month forcing Asda to stop selling at discount prices 10 bestsellers produced by seven publishers which abide by the agreement.

The company is now considering importing books in bulk from the US and continental Europe. Asda says it wants to make popular books more accessible and affordable and has called on the Office of Fair Trading to speed up its referral of the issue to the Restrictive Practices Court which last considered the agreement in 1964.

Belgium's hopeless balancing act

DATELINE

Brussels: cultural brinkmanship has been compounded by political scandal, writes Lionel Barber

A J P Taylor, the great Oxford historian, once wrote that the position of the Austro-Hungarian empire toward the end of the 19th century was hopeless, but not serious. That verdict could also apply to contemporary Belgium, a society teetering on the edge of linguistic and cultural conflict which always manages miraculously to pull itself back from the brink.

How long this precarious balancing act can continue is a question most Belgians are reluctant to address, though it is becoming more pressing as the country confronts a slow burning but explosive political scandal which has already led to the resignation of three government ministers and embroiled two of its most prominent international officials: Willy Claes, secretary general of the Nato alliance, and Karel Van Miert, the European Commissioner for competition policy.

The crisis looks certain to dominate the upcoming general election campaign, now rushed forward to May. But the implications of "Willygate", as it has been dubbed inevitably in the local press, go further. The scandal strikes to the heart of Belgium's cosy coalition politics and the disproportionate power wielded by the political parties. Some speculate it fits into a wider pattern of political corruption which has been exposed with devastating results in Italy and, to a lesser extent, in France.

Naturally, there is an Italian connection. In late 1988, Agusta, the Italian helicopter company, was trying to sell 46 attack and reconnaissance models to the Belgian army. The Italians, it later emerged, sought to secure the contract with a payment of BFr50m (£1m) to the Flemish socialist party, two of whose most prominent members were Van Miert and Claes, then minister for economic affairs.

Both men denied all wrong doing last week. But Claes, who has a habit of shooting from the lip, was forced to amend his blanket denial of knowledge of the offer of money. His volte face occurred after Frank Vandenbroucke, the youthful Belgian foreign minister, admitted that he recalled a discussion of the payments with Etienne Mangé, former treasurer of the socialist party. Claes now says he knew about the bribe, but warned party members not to accept it. Mangé admits that he took the money but failed to tell anybody.

None of these revelations would have come to light without the efforts of Veronique Ancia, an intrepid investigating magistrate from Liège, the leading city in francophone Wallonia in southern Belgium. Her original brief was to investigate the murder of André Cools, the longtime socialist party boss in Liège gunned down in the street by a still unidentified assailant in July 1991.

But her inquiries have since led her deep into the illegal financing of political parties in Belgium, with several valuable leads provided incidentally by Antonio di Pietro, the crusading anti-corruption magistrate in Italy.

On a narrow legal reading, the outcome of the Agusta affair may turn on the timing of the offer of money. If the Italians paid the money before the Belgian government decided to buy the 46 helicopters, then the arrangement could be described as a bribe. But if the payment was made after a decision to purchase, then it could be dismissed simply as a "gift" of the type which Belgian companies were until recently able to make to political parties deductible against tax.

Such tax-friendly contributions are no longer allowed under Belgian law. However, Paul Belian, an independent Belgian journalist, argues that his country is still suffering the consequences of a pernicious system which created incentives for the abuse of party power.

This is certainly true of Wallonia, where the socialists' virtual monopoly on power has guaranteed them a francophone seat in the Flemish Christian Democrat-led coalition government in Brussels. But it also holds good for the rest of Belgium where journalists, judges and academics often owe their jobs to party contacts or affiliation, says Belian.

The party financing system also amounted to an invitation to tax evasion in a country whose citizens are notoriously averse to handing over part of their incomes or savings to the public authorities. Some Belgians blame their vice on centuries of occupation by Gallic hordes, Spanish and Dutch conquerors, or latterly the French and Germans. Others say that the public is losing confidence in a highly taxed country where an ascendant Flemish community is straining for economic independence from struggling francophone Wallonia.

Whatever the explanation, one result is that Belgium's ratio of accumulated debt to gross domestic product is one of the highest in the European Union, double the 60 per cent which the Maastricht treaty stipulates is necessary for entering the planned European monetary union at the end of the century. Yet Belgium, which has pursued a hard franc policy of shadowing the German D-Mark, insists that it intends to be in the vanguard of countries joining a single currency.

It looks like a hopeless business, though one should not underestimate the commitment of the political class to deeper European integration. For as the nation state in Belgium slowly implodes, Europe looks like the country's sole salvation.

United Distillers hails its new spirit

Filling a year-old gap, Finn Johnsson moves from Sweden to be managing director, reports Roderick Oram


Ashley Ashwood

Quite what Finn Johnsson's neighbours in Malmo thought of his farewell party the other week is not recorded. But his 110 colleagues (plus partners) from Euroc, Scandinavia's largest building materials group, had a great time.

"It was rather a Scottish event," says one, describing the kilt and full Highland rig Johnsson hired from a film studio, not to mention the bagpiper, selection of malt whiskies and "a brand ambassador" courtesy of Johnsson's new employer, Guinness. While the piper piped, the whisky expert put the malts and Swedes through their paces until 4am.

For Johnsson, this could become a way of life as the new managing director of United Distillers, Guinness' spirits division and seller of such brands as Bell's and Johnnie Walker Scotch, and Gordon's gin. After a few days last week touring Japanese distributors, Johnsson, an avid traveller and presser of customer flesh, starts in earnest at the London HQ today.

Guinness hunted for a year for a new head of the division that generates three-quarters of group profits. The previous incumbent, Crispin Davis, left after just over a year following a clash of management styles and personalities with senior colleagues. The choice of a Swedish building materials man has produced some jokes. Scotch on the blocks was one. But that is hardly fair to Johnsson, 49 tomorrow, and his international career, largely in consumer goods. While working for Swedish Match and then Stora, two of Sweden's leading companies, he lived in Sweden, Germany, the US, Switzerland and the Philippines.

He has sold consumer goods, packaging, machinery and commodities, including cement. And he has had the rare distinction of pulling off contested takeovers in Germany and Thailand. But this should not be taken as a sign that Guinness is hitting the takeover trail, the group says.

Coping during his four years at Euroc with a severe global recession in the construction industry, Johnsson reorganised so radically that the group made record profits last year on only half the sales volume which had produced the previous record.

Guinness became interested in Johnsson, says Tony Greener, its chairman and chief executive, because it was looking for "someone with proven general management experience in highly competitive international businesses. The fact that he's not from spirits is largely irrelevant. UD didn't need anybody to tell them about spirits."

The job offer was irresistible. "I wanted to get back to consumer goods and global brands and to run a much bigger international organisation," says Johnsson. He and his family also wanted to live abroad again. "And it's much more interesting to talk about spirits than pulp and paper."

Even as he was winding up at Euroc, he was helping to reorganise UD's senior management along regional lines better to exploit emerging markets. In the wake of this, "Finn's first priority is settling down the management team," says Greener, and after that to "drive the business along". The strategy is to "gain share in mature markets and achieve powerful positions in emerging markets".

Johnsson has strong views on selling branded consumer goods and on international business, but says it is too early to say how they will apply to UD. Nobody at Guinness is likely to disagree with him on the pressures in the market place.

"Consumers are much less loyal than they were in the past and much more price conscious," he says. Moreover, the marketplace is changing rapidly with increased competition, new distribution channels and the opening of virgin territories such as eastern Europe and China.

Essential in markets old and new is commitment to customers, Johnsson says. "To know your business, you have to know your customers." When, for example, he had completed the hostile German acquisition, he knew he had to meet his new customers straight away. Trouble was, he and his wife were in hospital – she delivering their fifth child; he with his arm in a sling after a skin graft. He went to see them anyway. "They appreciated that."

He says his style is "open communication and team work . . . and I'm very profit oriented". Swedish colleagues say he was very supportive but very demanding, though even harder on himself. They were never quite sure how he found time to satisfy his passions for foreign literature, shooting, sailing and skiing. His new chairman is equally committed to the latter two but that's pure coincidence, Greener says.

In his career to date, Johnsson has kept the hours of a construction worker rather than a barman. "He believes in starting at 6.30am or with a breakfast meeting at 7.30am at the latest," a former colleague says. Whether Guinness changes him remains to be seen.

NAMES IN THE NEWS

Derivatives junkie arrives at ISDA

The publicity surrounding Barings' huge losses on derivatives could not have come at a worse time for Carolyn Johnson, writes Laurie Morse. This week she takes over as executive director of the International Swaps and Derivatives Association and she can forget any hope that she would have a quiet few months to find her feet.

Even before Barings' problems, the fast growing derivatives industry had been the subject of an increasingly negative press in the US. Johnson's task now is to help reassure sceptics that Barings' difficulties do not reflect on the standards of her members, the largest over-the-counter derivatives dealers.

Johnson, 37, is a derivatives junkie. She has spent more than a decade in the trading arena, most recently managing Banque Indosuez's derivatives arm in New York and lecturing on derivatives in her spare time.

Up to now, ISDA has been a clearing house for information on derivatives, and has concentrated on internal issues such as helping standardise trade documentation and working to modify regulatory capital requirements. Even before Barings' problems surfaced, Johnson wanted ISDA to concentrate on educating the public at large about the positive role of risk management instruments. She will have to redouble her efforts now if the industry's reputation is to escape unscathed by Barings' problems.

Cabin pressure on Air India's Mody

India's business world thought it had heard the last of Russi Mody when he was sacked as chairman of Tata Iron and Steel in May 1993, writes Shiraz Sidhva. However, recent events have shown that the feisty 76-year-old has no intention of going into quiet retirement.

Last November, Mody was made chairman of Air India and Indian Airlines and given the job of turning round the ailing state-owned international and national carriers. Air India can only just be called an international airline and Indian Airlines, which monopolised the domestic skies till two years ago, faces tough competition from at least six private carriers.

Mody wants to merge them into one national flag carrier but faces strong opposition. Brijesh Kumar, a relatively junior official in the civil aviation ministry, had tried to clip Mody's wings by reminding him that a "part-time chairman" was not to interfere in the day-to-day management of the airlines. Mody could afford to ignore this until last week when Durga Mathur, Air India's managing director, was sacked without Mody's knowledge and replaced by Kumar.

Mody has turned to Narasimha Rao, India's prime minister, to determine his position. But Rao is unlikely to rush to Mody's aid for fear of antagonising Ghulam Nabi Azad, the civil aviation minister, who feels that Mody, appointed by Rao, is treading on his toes.

Meanwhile, Air India's cabin staff have been disrupting flights and Indian Airlines' directors have rejected Mody's bid to prevent key staff defecting to private carriers by paying his domestic pilots the same as Air India's.

Mody is unlikely to give up without a fight. The man who once refused to fly Air India because there were "no menu cards in first class" is intent on making it the best airline in the world – if the bureaucrats do not ditch him first.

A little light on Philips' succession

Who is going to replace Jan Timmer at Philips? Speculation is mounting following last week's management reshuffle at the Dutch electronics group, writes Ronald van de Krol.

Executive vice-president Cor Boonstra, 57, who joined Philips only last summer from Sara Lee, has had his job split in two. John Wybrow, 47, head of Philips UK, takes over as chief executive of Philips Lighting and Boonstra has been asked to devote his attention to his other task – expanding Philip's Asia Pacific business.

Philips says the move reflects the importance of the Pacific Rim, citing travelling times alone as one reason why it was becoming a full-time job. But in the Netherlands, where Timmer's larger-than-life reputation causes frequent bouts of succession speculation, the reshuffle has been received by some as a pointer.

Opinion is divided as to whether Boonstra's new focus strengthens or weakens his chances of beating the other contenders, who include Pierre Everaert, 55, former chairman of Ahold; Dudley Eustace, 58, finance director; and Henk Bodt, 56, responsible for consumer electronics.

All Timmer, 62, will say is that the succession would be orderly and the chance of his staying until the age of 66 was "less than 1 per cent". But he also says he has no plans to quit in the short-term.

FT GUIDE TO GLOBAL UNEMPLOYMENT


Glyn Genin

Soweto: unemployment is grimmest in sub-Saharan Africa

How many people in the world are without work?
It is estimated by the United Nations that as many as 30 per cent of the world's 2.4bn labour force are not "productively employed". This amounts to 820m people. Of those, more than 125m want to work but cannot find jobs. The rest are classified as "under-employed", defined as people who are "working long hours but not earning enough to lift themselves and their families out of poverty".

What are the predictions for the future?
There is a widespread fashionable pessimism that jobs will grow scarcer in the next century as information technology sweeps across what will become a "near workerless world", according to *The End Of Work*, a book by Jeremy Rifkin that is troubling America at the moment. He believes employment will only be possible for a "new cosmopolitan elite" who control the technologies and forces of production. The rest will be growing numbers of permanently displaced workers.

What is happening to the structure of employment?
The structure of world employment is changing swiftly. Now, for the first time in recorded history, less than half the world's labour force works in agriculture (48 per cent in 1991 compared with 57 per cent who did so 30 years ago), while 17 per cent are employed in manufacturing and 35 per cent in the services sector. In the developing countries, 61 per cent of the employed population works on the land, but industrial employment has grown to 14 per cent. The share of manufacturing in total output in both industrialised and developing countries is roughly the same.

Is there a regional pattern to the unemployment problem?
Yes. In east Asia and parts of south-east Asia the employment situation has improved markedly over the past decade. But in other parts of Asia and areas of Latin America, along with eastern Europe and the countries of the former Soviet Union, the jobs outlook has worsened. The position is grimmest in sub-Saharan Africa, where 70 per cent of workers are still employed in agriculture. Unemployment there is more than 20 per cent on average. As many as 300m (60 per cent of the total rural population) live in absolute poverty.

And in the western industrialised world?
The Paris-based OECD estimates 34.7m are unemployed among the industrialised market economies, 8.3 per cent of the labour force this year.

Who suffers most from unemployment?
Young people are the most vulnerable, and in many countries they have unemployment rates far higher than the average. In Latin America more than 20 per cent of those under the age of 25 do not have a job. The position of youth is also difficult in some western European economies such as Spain (34 per cent) and Italy (33 per cent).

Child labour is particularly troubling. It is estimated by the Geneva-based International Labour Organisation (ILO) that there are as many as 200m child workers, 8 per cent of the world's labour force. Women also face a difficult position. They are more likely to be unemployed than men in many countries while their average incomes are much less than men's.

What has caused so much unemployment?
There is no simple definitive answer. The ILO in its new report blames the lack of demand management in the global economy and the concern with industrialised countries to make the defeat of inflation and monetary stability more urgent priorities than full employment. But others argue that global unemployment is caused by supply side labour market problems such as over-regulation, wage rigidities and protectionism. More recently it is thought anti-competitive measures in areas such as environmental control have hindered job creation.

What can be done about it?
Next week's UN-backed social summit in Copenhagen should provide plenty of answers. But there are sharp differences of opinion. In its recent employment report, the ILO called for international co-ordination by governments to back its objective of a return to full employment through a combination of trade liberalisation with export oriented policies, positive adjustment programmes by states to ease the pain of change, and a "co-ordinated recovery" by the leading economies. It believes there is "scope for expansion without generating serious inflationary pressures".

Other international bodies such as the World Bank and the International Monetary Fund are less hopeful about such an approach. They believe countries should give higher priority to the creation of economic stability through the development of more deregulated and flexible labour markets accompanied by tight domestic monetary policies designed to keep down the level of inflation.

Is international co-operation to deal with global unemployment really credible?
It is hoped that the successful completion of the Uruguay trade round and the emergence of the World Trade Organisation will stimulate more global trade which in itself will create more employment. Trade unions, backed by the Clinton administration in Washington and some labour economists, favour attaching social clauses to trade agreements that will protect workers from any dilution in core labour standards. But this proposal is opposed strongly by some developing countries who fear it could become a secret way of reintroducing protectionism.

Is free trade really a threat to jobs?
Some union leaders believe this to be true, but not many. The recent ILO report emphasises the vital role played by multinational enterprises. By 1992, it was estimated that about 73m jobs had been directly created by multinationals, including 12m in developing countries.

Robert Taylor

SPORT

■ ATHLETICS: *Indoor meeting. February 27, Stockholm. Indoor match, Ireland v Belgium v England, March 5, Nenagh, Ireland.*

□ TENNIS: *Chris Evert Cup, women, February 27-March 5, Indian Wells. LTA Challenger tournament, women. February 28-March 7, Southampton.*
Dally Randriantefy, Madagascar's 18-year-old prodigy, is among the entries at Southampton this week. Last month she reached the third round of the Australian Open before losing 6-3 6-3 to eventual winner Mary Pierce of France.

■ FOOTBALL.
Tomorrow is the deadline for bids for staging soccer's 2002 World Cup. Fifa wants the tournament to be held in Asia. The contest seems to lie between Japan and South Korea, although Mexico, incongruously, is also bidding. South Korea, citing its footballing pedigree, describes itself as favourite. It has reached the World Cup finals four times. Fifa will decide in June next year.

□ RUGBY LEAGUE: *France v Wales, March 4, Carcassonne.*

■ RUGBY UNION: *Five Nations' championship, March 4, Ireland v France, Dublin; Scotland v Wales, Edinburgh.*
Having beaten Ireland, France and Wales by an accumulated points margin of 74-27, England sit this round out and wait for Scotland on March 18 at Twickenham. But Scotland are also unbeaten, having played twice (Ireland and France), and will probably grind the Welsh into small and bitter pieces. Ireland v France is more problematic. Ireland have recalled flyhalf Eric Elwood in place of Paul Burke. Elwood sustained a serious ankle injury last September.

□ ICE SKATING: *World speed skating championship, women, March 4-5, Savalen, Norway.*

■ HORSE RACING.
British jockeys face tougher penalties from March 2 under rule changes designed to rid racing of non-triers. Jockeys risk bans of up to two weeks for offences that previously incurred fines.
And horses involved in attempts to fool the handicapper or pave the way for betting coups can be banned for 30 days.

□ DIVING.
Breaking the Surface, by Greg Louganis, the finest diver ever, is due to be published by Random House today. Louganis discusses Aids, from which he suffers, dyslexia and racism.

Michael Thompson-Noel

MUSIC

■ Remixing has become one of the most controversial issues in pop music, but that has not intimidated the compilers of *Motown Blend* (Tamla Motown), who have cheerfully raided the famous record company's back catalogue to produce a contemporary sound from past glories. The remixed versions of Marvin Gaye's "Got To Give It Up" and Eddie Kendricks's "Keep on Truckin' " bear a rather approximate resemblance to the originals – more a case of rewrite and redefine than remix – and one cannot help thinking that some great music is being unacceptably plundered. Still, no doubt it all makes sense on the dance floor.

□ The young German counter-tenor Andreas Scholl received glowing reviews for his singing in William Christie's recent recording of Handel's *Messiah*. His debut album *Deutsche Barocklieder* (Harmonia Mundi) is also a beautiful example of the counter-tenor's art, as he tackles German *Lied* composers of the 17th and early 18th century.

■ Intriguing song titles appear on Ennio Morricone's soundtrack album from the movie *Disclosure*, starring Michael Douglas and Demi Moore in a steamy office romance. "Sex and Computers" is followed by "Computers and Work" and "Sex and Power". The album ends with "Sex, Power and Computers"; ah well, time to go back to the first track, "Serene Family".

□ The Eder Quartet starts a new cycle of Shostakovich String Quartets on the Naxos label with spirited accounts of Nos 4, 6 and 7, recorded in Budapest in 1993.

Peter Aspden

FILMS

■ Film making is a slippery road. Virtually awarded the formula one championship after *The Player* and *Short Cuts*, Robert Altman crashes into the barriers with his fashion industry satire, *Prèt A Porter*, the week's only major UK opening.

This was trounced in America. So you could put its all-star mannequins on hold – Julia Roberts, Kim Basinger, Sophia Loren – and settle for a week's VCR viewing.

□ Newly released on video are two outstanding collector's items. Werner Herzog's *Fitzcarraldo* is the scenic tale of an opera loving rubber baron (Klaus Kinski) who hauls a steamboat up the Amazon and through the jungle, while Caruso sings the soundtrack. *Spartacus*, freshly restored, is Stanley Kubrick's epic, with battle loving Kirk Douglas hauling an army of revolting slaves across Italy preparatory to bashing Laurence Olivier's Crassus. Fine spectacle, fine stars.

■ More recent is Barry Levinson's *Jimmy Hollywood*. Like Altman, Levinson is a yesterday's wonder boy (*Rain Man*, *Bugsy*) fallen on hard times. This 1993 black comedy about a jobless actor (Joe Pesci) who turns street vigilante was too quirky for the public, though US critics approved of its satiric tale of Hollywood-on-the-edge. Pesci is splendid and the film, though going straight to video in the UK, is energetic if uneven.

□ Elsewhere, special effects rule. In *Wolf*, Jack Nicholson turns lycanthropic before your eyes. And in last year's best effects comedy, *The Mask*, Jim Carrey becomes a whirlwind, a pop-eyed dog and a lovestruck barfly whose heart leaps – literally – from his chest.

Nigel Andrews

MANAGEMENT

Germany's system of corporate governance is under pressure to reform, explains **Andrew Fisher**

Cracks around the edges

Whenever crises erupt in Germany's normally peaceful and prosperous corporate landscape, accusing fingers are pointed at supervisory boards. It is the job of these non-executive bodies to pick management teams able enough to run companies profitably and stay out of trouble.

They do not always succeed. Yet when the two-tier system breaks down, and supervisory (Aufsichtsrat) and management (Vorstand) boards fail to forestall difficulties, matters are usually kept quiet. German companies and banks do not like public quarrels and the voice of shareholders (institutional and private) is still muted.

Several recent disasters have highlighted the vulnerability of Germany's system of corporate governance and raised renewed calls for reform. Inevitably, the big banks have been drawn into the debate, criticised both for their stakes in industry and the prominent positions they hold on many supervisory boards.

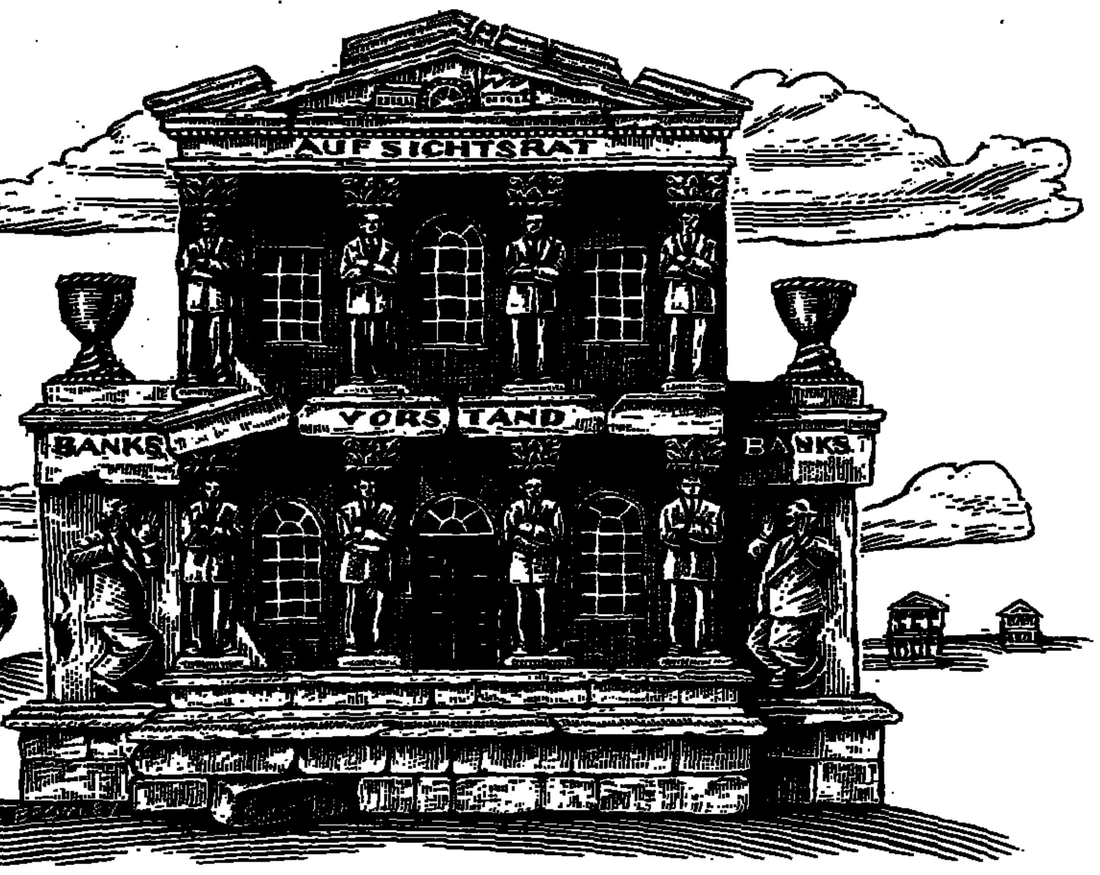
Two spectacular cases – Metallgesellschaft and Klöckner-Humboldt-Deutz – have renewed discussion of both issues. Deutsche Bank, Germany's biggest bank, has holdings in each company and two of its directors head their supervisory boards.

Metallgesellschaft, an industrial and trading company, fell into heavy losses over US oil futures trading at the end of 1993 and nearly went bankrupt a year ago. It was only rescued with a DM3.4bn (£1.45bn) package put together by banks, led by Deutsche Bank. Arguments about why things went wrong still rage bitterly on both sides – and will continue in the courts – but among the important issues raised were whether the management kept the supervisory board informed of the risks, and whether the supervisory board magnified the losses by the way it organised the winding up of the derivatives-based oil contracts.

In the more straightforward case of KHD, the question has been how far Deutsche Bank (a big shareholder) and the supervisory board knew the extent of its financial difficulties before these emerged publicly last month. A capital restructuring package has been assembled to keep the company going.

Another cause célèbre is Balsam, the sports flooring group which collapsed last year with debts of DM2.5bn. It allegedly falsified its accounts for years, fooling auditors, creditors and outside directors.

The German board system dates in its present form from 1976 when Mitbestimmung (co-determination) gave shareholders and labour representatives an equal say on most supervisory boards, although the chairman (usually from the shareholding side) has a casting vote.



But the practice of operating a dual board system – as opposed to the Anglo-Saxon approach of having a single or unitary board – arose late in the 19th century as modern industry was developing and the universal banking system, in which banks act as both deposit and investment banks, took hold in Germany. Ever since, the role of banks as shareholders and on supervisory boards has been subject to criticism when companies have fallen into trouble.

In the 1980s, problems at AEG (electronics), IBH (construction equipment) and Klöckner & Co (trading) shocked the corporate community. The case of Volkswagen, hit by a foreign exchange scandal in 1987, also helped raise the reform banner. There were calls for greater use of corporate specialists – such as company doctors or consultants, accountants, lawyers and others with industrial experience – and greater reliance on commitees, especially in the tricky area of audits, as well as more frequent board meetings.

The latest upsurge of interest in the two-tier board system has revived such proposals and reawakened political interest. Last November's coalition agreement between the Christian Democrats (CDU) and the Free Democrats (FDP), the junior partner, included a passage on the need for corporate control through supervisory boards. It held out the possibility of a reduction in the number of non-executive seats that one individual could hold (currently 10).

But the government will be cautious about legal changes. "Careful corrections" are likely rather than a wholesale rewriting of company law, Rainer Funke, parliamentary state secretary at the justice ministry, told a conference in Frankfurt organised by IMD, the international business school based in Switzerland, and Frankfurter Allgemeine Zeitung, the German newspaper.

"We must not succumb to the idea that mistakes by individuals, even criminal activities of some, can be avoided by a change in the legal system," he added. Nevertheless the government was looking at ways of strengthening the system which he said was basically sound. The main task was to give non-executives more time to do their job properly and widen the circle from which they are drawn.

Because of their large shareholdings in industry, banks inevitably have an important role in supervisory boards. Many of their stakes derive from earlier corporate crises, as with Deutsche Bank's original stake in Daimler-Benz in the 1920s. The close links between banks and companies in a country where equity financing and share ownership is relatively under-developed means that stakes in industry and seats on supervisory boards are linked issues.

But some banks are trying to withdraw from the firing line. Deutsche Bank wants fewer large holdings and more small ones, although capital gains tax is a hindrance to such diversification. In view of the growing complexity of industrial markets and fiercer competition, Deutsche Bank is also trying to lessen its role in supervisory boards.

Ellen Schneider-Lenné, a director of the bank, said bluntly and controversially at the Frankfurt conference that bankers should no longer take on chairmanships of non-executive boards.

"Industrialists tend to be better qualified because of their experience. The job has changed in depth." She pointed out, though, that only one in 20 supervisory board members was a banker.

Both she and Sir Adrian Cadbury, head of the corporate governance committee which drew up a code of behaviour for UK companies, thought the German and Anglo-Saxon systems would gradually converge. Schneider-Lenné said she would welcome such a code for German companies, so "non-observance of such a code would eventually be punished by the market".

In Sir Adrian's view, the growing need for large companies to tap the same international sources of capital will act as a force for convergence. German and other continental European companies might take from the UK model more open disclosure, transparency of accounts, and a better respect for shareholders' rights. UK companies would tend to take greater account of employees' interests, as well as those of shareholders, as part of a longer term view.

Institutions will obviously play a key role in this. Schneider-Lenné said it was characteristic of Anglo-Saxon institutions and their "sometimes extremely short-term orientation" that they often voted "with their feet" by selling shares rather than trying to influence the company.

But this was changing, with the size of shareholdings by UK insurance companies, pension and investment funds, and other institutions now so high that share sales could only depress the price. Institutions are not major shareholders in Germany, but the investment climate is changing as more attention is paid to equities. With only half the top 100 German companies quoted on the stock exchange, though, the scope for increased shareholder influence is limited.

Greater emphasis on shareholder value will not replace the importance of supervisory boards, but it could modify their role. "Although much scorn and mockery has been poured on the German system of surveillance, on the whole we can be pleased," said Schneider-Lenné.

Her confidence in the durability of Germany's two-tier system is probably justified until another crisis refuels the debate.

Board behaviour in the UK

The role of non-executive, or part-time board members, is central to the debate about corporate governance in the UK. But are these people effective and, if so, what factors shape their influence?

Most discussion of the issue centres on the rules and regulations which directors must now follow – and non-execs in particular oversee – to avoid a repeat of the corporate scandals and excesses of the late 1980s. But in a recent paper Andrew Pettigrew and Terry McNulty of Warwick Business School's Centre for Corporate Strategy and Change have shifted attention to the more subtle question of behavioural dynamics at the top.

Their pilot study*, part of wider research based on a sample of non-executive directors from the top 200 UK industrial and commercial companies and the top 50 UK financial institutions, asserts that there has been a perceptible tilt towards what they call the "maximalist" board. This model is typified by companies whose chairman or chief executive is the main boardroom "shaper" and whose small but carefully chosen group of non-execs work well together as a team.

Such individuals are generally powerful figures and familiar with the relevant business or its sector. They are allowed, indeed encouraged, to roam beyond the boardroom and develop informal information networks as part of developing a role. The board process of which they are part ensures that agenda items encourage discussion rather than a one-way report back by the full-time executives.

By contrast, a "minimalist" culture regards NEDs as "frills and appendages" to corporate management, starving them of information and opportunities to contribute. The size and composition of boards, over-powerful chairmen or chief executives and poor handling of meetings can all be responsible.

On the basis of in-depth interviews with 20 experienced part-time board members, Pettigrew and McNulty suggest crisis and surprise are still the most common spurs to non-exec involvement. Saying no or preventing things happening also remains easier than exerting positive influence, which requires a strong power base, real political will and interpersonal skills.

The "how to" of assertiveness – revealed in many of the comments of the individual respondents – is perhaps the most interesting feature of the research. NEDs, it makes clear, have to mobilise a variety of "power sources" – their external stature and prestige, the external legitimacy of groups such as shareholders or regulators, the authority that comes with membership of a formal board committee, or even the threat of public or private resignation – if they are to take the initiative. Knowledge and background are crucial. "The worst NED is the 'sounder-off type'," says one interviewee. "You can see a sort of frisson go around the board table – 'what's the bloody man talking about, he has not even been in the inside of our works'."

Particular skills mentioned as critical to deliver non-executive influence included tact, logical argument and persuasion. "It is curious what makes a board listen to you on a subject," says one NED. "It may listen to you because they know you know about it. But they will also listen to people because they think that their judgment is good, is better in this situation than that situation."

Tim Dickson

Available from Centre for Corporate Strategy and Change, Warwick Business School, University of Warwick, Coventry CV4 7AL.

Tampax knocked off the tennis court

MICHAEL THOMPSON-NOEL

Sponsorship. Now there's a tiresome business. There used to be a time when sponsorship was considered a sexy subject by people who ran newspapers. Some widget-maker only had to say he was going to sponsor the European lorry-drivers' championship or the UK pigeon racing marathon and editors would quiver.

News stories were ordered. Feature articles, too. In the 1970s I probably wrote 10 or 11 features about sports sponsorship. And my irritation grew.

My irritation grew because I am doubtless a marketing snob. As I started to learn about marketing, I realised that the bit I liked most was advertising – generally described as the above-the-line element of marketing communication. Advertising is fun. Advertising is big: in Britain, expenditure has raced past £10bn (it is booming at present, though hardly anyone admits it). Advertising sells products: it is an integral part of capitalism. Finally, it supports diverse and caterwauling media. Without advertising, you probably couldn't have democracy.

I am far less interested in below-the-line techniques. The main ones are: non-price-related sales promotions, direct mail, sponsorship and tele-selling. All are hideously boring. And they are much smaller than advertising. Roughly, for every £1 spent on non-price sales promotions or on direct mail marketing, £8 is spent on advertising; for every £1 spent on sponsorship, £26 is spent on advertising.

A large number of big-time marketing companies are said to be disillusioned with advertising, especially with its cost, and have been ferreting about below-the-line to see if they can get better value. I expect this is a fad, and that the benefits of advertising, some of which are measurable, will be rediscovered fairly soon.

Meantime, sponsorship is getting plenty of ink, and could even be improving its market share. But sponsorship can be a minefield. For example, the women's professional tennis tour recently knocked back a sponsorship offer from the manufacturer of Tampax tampons. Although they have been without a global sponsor for a year, the women turned down a three-year offer of at least $10m from Tambrands, the maker of Tampax.

"We were caught in a Catch-22 situation," says Martina Navratilova, formerly Queen of Wimbledon, now president of the WTA Tour Players' Association. "The players wanted to support it, but we came to realise that it was economically unfeasible. We couldn't risk losing the local tournament sponsors, which is where our $35m in prize money comes from, because they didn't want to be associated with a WTA tour presented by Tampax. It shouldn't be a stigma, but apparently it still is."

Her words throw a dowdy glare on those who run women's tennis, for the women have been seeking a main sponsor since ending their long and loudly criticised relationship with Philip Morris, maker of Virginia Slims cigarettes. Tambrands wanted to be the global sponsor, but failed to win support among tournament officials, including those at Wimbledon.

Anne Person Worcester, chief executive of the WTA tour, says that even just considering Tambrands' proposal caused a great backlash. But a spokesman at Advantage International, the firm that was trying to find a new sponsor, says that women's tennis made a mistake in rejecting Tampax.

"Women's tennis had the chance to do something cutting edge, to lead instead of follow, and instead they've opted for the path of least resistance," says Harlan Stone, Advantage's executive vice-president.

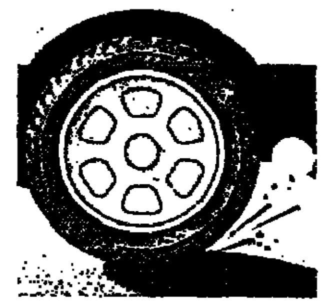
He says it was not easy seeking a sponsor for women's tennis last year, when the sport was hurt by the absence of stars Monica Seles and Jennifer Capriati, and by lacklustre competition at the top. Seles has been sidelined since being stabbed in 1993 and Capriati was off the tour for more than a year with personal problems, including drugs. Remarkably, Tambrands was rejected even though the tour would not have had to use Tampax as part of its official name.

"When we researched the possible image and impact this deal [would have] on the tour itself and on our tournaments' ability to sell sponsorships and broadcasting rights," says Worcester, "we found that 75 per cent of the insiders and experts we polled felt this would have a long-term negative impact."

How strange. In the early 1970s, I dare say that the maker of Tampax almost never got its name in the papers, let alone imagined it was fit to sponsor the women's tennis circuit.

Yet those were simple times. For many years, I myself was not sure what tampons were. I used to see them in women's flats, often next to the hair drier, which made me believe they were something to do with hair curling.

But that was then. This is now. Tambrands must feel ill-used. On the other hand, if you have $10m lying around unutilised, call Navratilova. She would really like to hear from you.



FAST TRACK

Saes Getters

Saes Getters will never be a household name like Sony or Philips, but there is an 80 per cent chance that the new television set you bought last year contains one essential component – a "getter" – manufactured by this small, Milan-based, high-technology company.

The getter is the chemical pump which maintains the vacuum in a television or computer's cathode ray tube. Saes Getters has a staggering 82 per cent of the world market in colour TV getters.

Saes was founded in 1940, and started manufacturing getters in the 1950s. Now it has more than 600 employees, nine plants in Europe, the US and East Asia, and turnover in 1994 is forecast to top L130bn (£50m), with 99 per cent of sales outside Italy. In the first half of last year, Saes reported net consolidated profits of L12bn – a net margin of 18 per cent on sales, and an increase of 58 per cent over the first six months of 1993.

Paolo Della Porta, chief executive, invented the modern getter at the beginning of the 1950s. He now describes Saes as a multinational; but he is not ready to hang up his lab coat and retire. Growth, he says, is set to continue.

Della Porta knows from experience the importance of continuing innovation. Semiconductors made the radio valves using his original getter obsolete, but Saes switched to producing getters for black-and-white and then colour TV tubes.

That is why Saes invests the equivalent of 10 per cent of turnover in research and development, making itself a training ground for specialists in the next generation of getter-based products. It is also why Della Porta is not frightened by talk of tubeless flat-screen televisions. Certain flat screens still require a vacuum, analysts point out, and mass-produced liquid crystal displays of sufficient quality are still at least five years away.

In any case, the company is already diversifying. Traditional barium getters accounted for only half Saes's 1993 sales. The other half came from industrial applications and the growing gas purification division. This area should account for about 25 per cent of sales in 1995.

Potentially lucrative industrial applications could include a new getter for vacuum panels in fridges.

Saes has been quoted on the Italian stock market since 1986, but last year it broadened its shareholder base with an offer of ordinary shares, putting new pressure on management to sustain progress. Della Porta has no doubts about the company's ability to do so, but demands the same rigour from his investors as from his research staff. He is scathing, for example, about outgoing investors who did not have the patience to wait five years for returns on the company's investment in the US.

So far his long-term vision has paid off. His family is still the company's biggest shareholder with 30.5 per cent of Saes ordinary shares and the company's only rivals have fallen by the wayside. "Competitors are always disappearing," Della Porta says, simply. "Large factories decide to stop internal production and use our products because they are more advanced."

Andrew Hill

Newspapers learn to bypass the letter box

Stephen McGookin enters an online whirlwind

Some people say that print is dead. Whether that is true or not, the worldwide newspaper business is at the centre of a digital communications whirlwind.

With many newspapers launching interactive services, which allow two-way communication with readers, theories abound as to the industry's fate. There is a good deal of activity, but not a lot of direction.

Against this background, 700 newspaper professionals – mostly from the US but also from 25 other countries – met recently in Dallas for the sixth annual Interactive Newspapers conference.

During four days of brain-storming and whizz-bang presentations, the common theme was that the world's newspapers are increasingly looking to gain experience of a wholly different publishing medium, and to maximise revenue potentials beyond their traditional hard-copy base.

The number of US newspapers understood to be offering some form of interactive service – online, via fax or through reader-dialled voice information – has grown from 42 in February 1989 to 3,200 this month, according to an annual study by the Kelsey Group, co-sponsors of the conference.

The most popular caller-paid service provided by the newspapers in the survey was "voice personals", where readers can respond to electronic box-numbers for the price of a premium-rate call. The three other top phone-based services were horoscopes, sports and crosswords. When papers were asked about their intentions, electronic classified ads headed the list of planned phone services.

Lou Zimmers, president of Zimmers Voice Publishing in Cincinnati, Ohio, says: "It is rare for any mature industry to have the option to go into new technologies and to do so quite inexpensively."

He believes that full online services should be the final element of an integrated new-media strategy for newspapers, with revenues created by the first stage being used to fund development of the next. His roadmap envisages an 18-month transition between a paper setting up a basic service such as voice personals to providing a full online service.

Steve Outing, publisher of an up-to-date digest of online newspaper activity, says about 60 US newspapers operate electronic editions. They do so either via the Internet, using a World Wide Web site, or in partnership with one of the large US online service providers, Prodigy, America Online, CompuServe and Delphi, which are expanding rapidly.

Prodigy offers 10 newspapers, including the Access Atlanta service from the Atlanta Journal and Constitution and the Los Angeles Times' Timeslink service, recently voted the best online publication by industry newsletter Interactive Publishing Alert.

Dan Fisher, the LA Times' editor of online services, says that from the outset the online product must be "more than the newspaper". He says the LA Times wants "to become the leading local gateway for electronic commerce in our local market, while building upon and strengthening the newspaper franchise".

Prodigy plans to have a further "five or six" well-known newspaper titles available to subscribers by September. But while there might be advantages in terms of access, know-how and royalties for a paper in signing over its identity to a larger concern, Chip Bayers, managing editor of HotWired – the online version of Wired, the monthly computer magazine – says there is "not a lot of difference between individual newspapers" on Prodigy because overall control of design rests with the commercial provider.

Content, therefore – especially local content – is seen as the element with which newspapers can set themselves apart from other types of online information service.

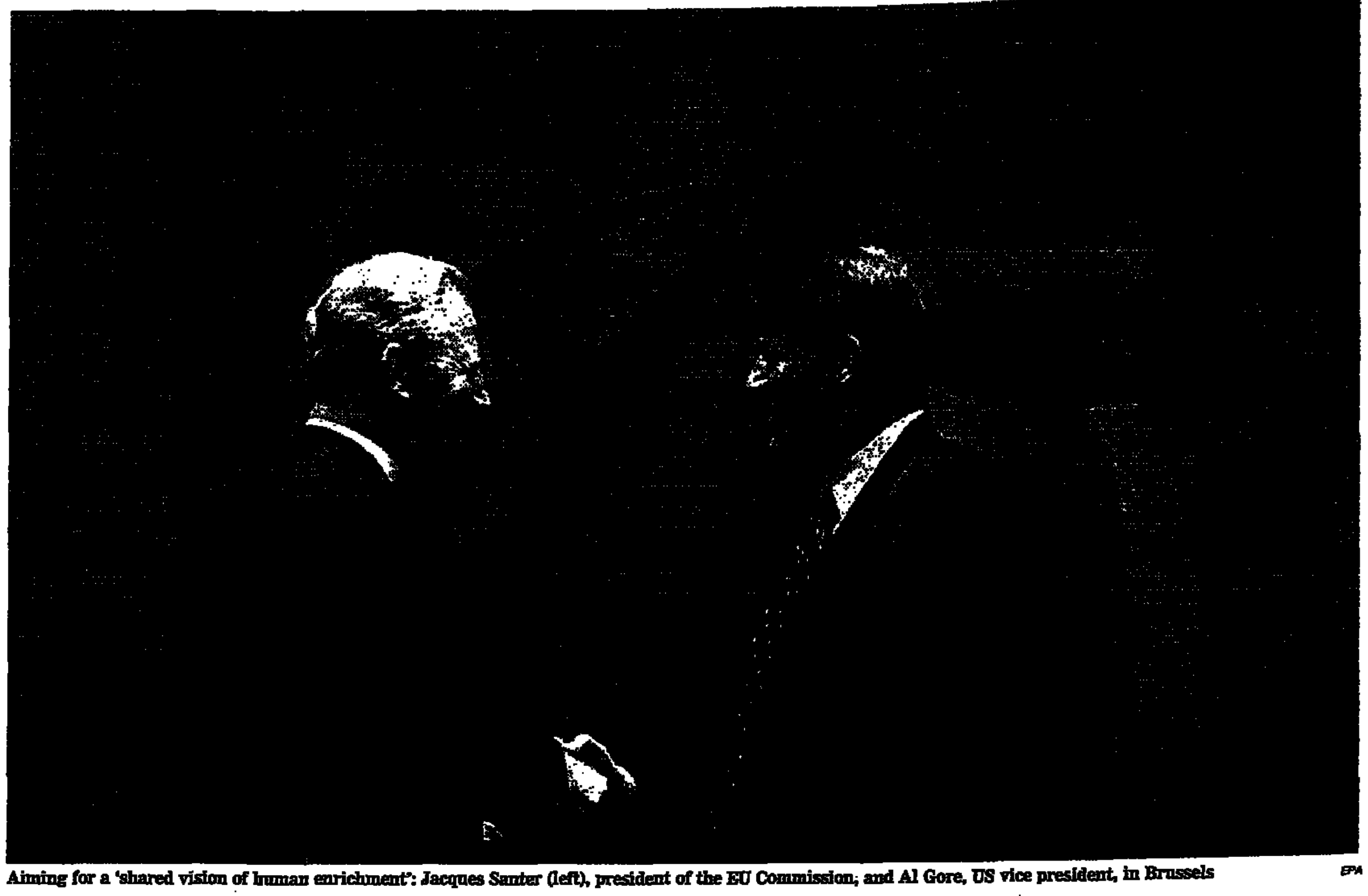
There is, however, the lurking spectre of "cannibalism", where the content of the electronic service impinges too greatly on, and reduces the circulation of, the hard-copy product. But veer too much the other way by not providing enough for online readers to want to call up, and a paper can alienate its cyberspace readership.

There are two things on which most industry insiders could probably agree. First, there is no right or wrong way to approach electronic publishing. Different products and markets need different strategies. Second, no one has yet figured out the likely relationship between electronic newspaper publishing and advertising.

Result: it's difficult to say who is making money out of online newspapers, and how. The only speaker in Dallas who would say publicly that his product was profitable was Henry Scott, vice-president of new media at the New York Times, whose @Times service – he says – is generating "800,000 accesses a month" from America Online subscribers.

Retta Kelley of Prodigy says that for newspapers, setting up an online service is like building a boat while riding in it. "Something has to be very powerful to make readers want to go and turn on their computer," she says. Knowing what that might be is the difficult part.

Stephen McGookin can be contacted at steve@mcgook.demon.co.uk



Aiming for a 'shared vision of human enrichment': Jacques Santer (left), president of the EU Commission, and Al Gore, US vice president, in Brussels EPA

First steps towards a structure for global communications

Alan Cane in Brussels sums up the G7 conference on the information superhighway

"I have come here with some trepidation," said Robert Allen, chairman of AT&T, the largest US telecoms carrier, speaking privately on the eve of the G7 ministerial conference on the information superhighway in Brussels at the weekend.

He was expressing the doubts of many of his fellow industrialists. "It is easy to agree on principles but less easy to implement them," he continued. "The devil is in the details and I have concerns about the commitment of some of the participants".

The Group of Seven leading industrialised nations' conference, which closed yesterday, was ostensibly about creating broader awareness of the information superhighway – a network of computers and databases linked by high capacity telecommunications lines knitting the world's nations in a seamless electronic web.

Topics discussed included ways of promoting fair competition, encouraging private investment, defining a regulatory framework and providing open access to networks.

The hidden agenda was the speed at which countries – especially those in Europe – were prepared to liberalise their telecoms regimes by tearing down the protection around state-owned monopoly suppliers and allowing open competition in infrastructure and services.

Jacques Santer, president of the European Commission, said in his opening address: "What we are aiming at is to construct a truly shared vision of human enrichment ... For the benefits to be fully realised, competitive conditions will have to be fair and markets more open ..."

In fact, the major European countries are committed to open competition by January 1 1998. But many feel progress is still too slow. During the conference, AT&T's Robert Allen said: "The 1998 target date is almost three years away. And three years is a long time in the fast moving world of information technology ... Neither the dominant telecoms organisations of Europe nor their multinational customers can afford to wait three years for the benefits of competition. And we should bear in mind that declaring a market open does not in itself create a competitive market. That could take years beyond 1998. Without resolve across the region, it could take well into the next century."

Allen's impatience was understandable. AT&T has just broken off negotiations that could have led to the US company taking a stake in Groupe Bull of France because it saw no signs that France would open its telecoms market to free competition before 1998. AT&T had hoped to trade support for Bull against a public telecoms operator's licence in France.

European business leaders shared Allen's concern. Lucio Stanca, head of IBM Europe, was worried that some countries would look for ways of delaying liberalisation beyond 1998: "The speed of Europe will be the speed of the slowest. This cannot be good for Europe. It will take strong leadership both in Brussels and in individual countries if Europe is to share this vision."

> The hidden agenda was the speed at which countries, especially those in Europe, were prepared to liberalise their telecoms regimes

By the end of the conference – the first of its kind to concentrate on telecoms and information – the mood had changed, albeit slightly. Business people and politicians alike seemed to believe that the first faltering steps towards a global information infrastructure had been taken.

Peter Bonfield is chairman of the UK-based computer company ICL. He is also a member of the high level committee under EU industry commissioner Martin Bangemann which reported last year on Europe's role in the telecommunications revolution. He expressed the views of many industrialists when he said there had been "a real shift in the way people are thinking, even in the few months since the Bangemann report was published". It was the first time industrialists had been invited to share in the proceedings of a G7 conference. Ian Taylor, the UK technology minister, said the seriousness with which the issue was being taken had been underlined by the number and seniority of the industrialists attending.

They included Carlo De Benedetti, chairman of Olivetti, Haruo Yamaguchi, chairman of NTT, and Jean-Marie Descarpentries, head of Groupe Bull. The expectation beforehand had been that there would be grand statements but few concrete proposals. This expectation was fulfilled.

But the European Commission announced that it intended to launch two new advisory groups: one, an information society forum, drawn from a wide variety of different groups, to work on the framework of the information society; second, a high level group of experts to contribute to the Commission's preparations for the economic and social changes anticipated in Europe from the information revolution.

De Benedetti committed the European Roundtable of Industrialists to prepare recommendations for speeding up the construction of the global information society to be presented to the forthcoming G7 summit in Halifax.

And a number of areas were chosen for the development of pilot projects in information technology and the information society. These include electronic libraries, electronic museums and galleries, and development of a global emergency management system.

It was the industrialists, however, who pressed the case for the information superhighway more enthusiastically. A selection of quotes from industrialists gives the flavour of their contributions.

Peter Bonfield of ICL suggested that governments should employ information technology to improve their efficiency by 10-15 per cent a year, as was the case in the IT industries. This improvement could be returned in the form of lower taxes which would in turn raise demand for IT systems.

There was concern over the possibility of a gap developing between "have" and "have not" nations. Charles Sirois, chief executive of Teleglobe, a Canadian telecoms company, said one of the most effective ways to transfer knowledge and technology was through electronic networks, and suggested a concessional rate for developing countries within a worldwide fee structure, or through lines of credit arranged by the World Bank.

Lord Blakenham, chairman of Pearson Group, owner of the Financial Times, thought the cost of policing the information superhighway to prevent fraud and protect intellectual property might approach the worldwide cost of protecting physical property.

And Letizia Moratti, president of RAI of Italy, said it was wrong to believe that uncontrolled proliferation of transmission channels was bound to marginalise or supersede the role and duties of public services as they have developed in the European democracies.

Martin Mulligan looks at the possibility of publishing on demand

Revolution in the archives

Picture it. The book you want is unavailable. So you call the publisher and order a print-out of the text via your home computer, or order a bound copy printed for you personally.

This is no visionary scenario but a practical reality said to be only five years away. And academic publishing houses are at the forefront of on-demand publishing.

Academic presses tend to publish titles sought by specialists. Sometimes there is a gap of years between requests for copies. This can be costly. But the electronic vista of on-demand publishing changes the economics. A compact electronic archive replaces a bulky, sprawling, high-maintenance and paper-based warehouse or fusty library stacks.

Next month sees the crossing of a threshold. In an experiment, Cambridge University Press will publish the edited proceedings of a conference on radio astronomy. The original conference last October had only 200 participants. But the findings, networked on the World Wide Web, will interest many of the world's 10,000 professional astronomers. Colour illustrations – outlandishly costly in an illustrated book – will be incorporated.

Interested astronomers worldwide will be able to follow the proceedings on-screen, and run them off as hard copy on a linked laser printer. There is no reason, in principle, why the same technique could not be applied to all 26,000 books that the press has in print.

Dr Simon Mitton, director of electronic publishing at Cambridge University Press, is adamant that the revolution will happen. "We are busy getting feedback from user communities such as academics, scholars and libraries," he says.

The same trend is visible in medical and scientific publishing. Jonathan Ward, strategic systems manager at Oxford University Press, says: "If you want a book, we'll print it."

Conventional print technology requires minimum print runs of 300-500 copies, says Ward. This is often uneconomical. "Most of the [on-demand] technology exists; the question is how to put it together for viable products," he says.

An estimated 164m hardcover books alone pour into homes, offices and libraries in Britain each year. Will on-demand publishing stem this flood? And what will it mean for traditional libraries?

Against all expectations, John Mahoney, director of computing and telecommunications at the British Library, welcomes on-demand developments. That seems strange from a man who boasts that the oldest item in his library's archive is a piece of tree bark 4,000 years old. But he quickly adds that "the latest thing we have in the archive was published this morning."

He says: "I don't think that the introduction of digital material and networking is going to displace the physical collection." But the new technologies have tremendous potential, he says, for opening access to libraries' collections.

Mahoney is busy creating "a world centre for the storage and access of digital texts" which will complement the expanding print-based archive. The two will grow together.

He admits there are likely to be early print-based casualties of on-demand publishing. Traditional conference and scientific publishing, for example, seem to be on borrowed time. But he says that is only half the story. When the ranting about "electronics killing books" is over, on-demand publishing and its relatives may well usher in a renaissance for the book in all its forms.

BUSINESS TRAVEL

Malaria protection

British Airways has pointed out that malarial protection is no longer offered free of charge on Britain's National Health Service. Travellers can buy protection through BA's 38 travel clinics for £24.95 for eight tablets of Lariam, the latest antimalarial mefloquine.

Up-to-date malaria information can be had via the London School of Hygiene and Tropical Medicine's health line: 0891-224100.

In flight defibrillators

Machines which can save the lives of heart attack passengers should be fitted in aircraft, doctors say. Their call, in The *Lancet* magazine, follows the discovery that airline passengers are more likely to die from a heart attack than in an aircraft crash. Doctors say aircraft should carry small electrical defibrillators. Such machines have been installed in all 53 Qantas international B747 and 767 aircraft. Doctors believe there are 500-1,000 deaths from cardiac arrest on IATA aircraft each year worldwide. Virgin Atlantic Airways has equipped its small fleet of B747s with defibrillators. It is said to be the only carrier other than Qantas to have taken such a step.

Travel card trial

A device to shorten immigration queues is being tested by business travellers at New York's John F Kennedy airport and at Newark airport, New Jersey, writes Scheherazade Daneshkhu. Future Automated Screening for Travellers (Fast) uses biometrics – in this case, a three-dimensional geometric image of the human hand – to identify travellers. The characteristics of the traveller's hand are encoded on to a travel card which is inserted into a card reader at an international border. The traveller places his hand on a scanner and a match is made between the image of the hand encoded on the card and the "live" reading.

The average length of time spent in an immigration queue at a busy airport is 45 minutes, according to the World Travel and Tourism Council, a network of 70 chief executive officers from the travel industry. WTTC, which is promoting the device, manufactured by Aff Corporation, a Canadian firm, expects the number of travellers to double over the next decade.

Stansted under-used

London's Stansted Airport is woefully under-used, in spite of its easy access to the City, *writes Michael Skapinker*. But its management insists things are improving. Passenger numbers rose 23 per cent to 3.3m in the 12 months to end-January.

● Haagen Dazs at London Heathrow Terminal 1 serves the best cappuccino to be found at any UK airport. The lightest croissant is at the Granary Restaurant, Glasgow airport. Five of Britain's top chefs have made awards for best restaurants and snack bars at BAA airports. Best glass of wine: the seafood bars in Heathrow's Terminals 3 and 4. Friendliest service: Brophy's restaurant, Aberdeen airport.

London-Belfast service

A new London-Belfast air service starts this week, after six months of peace in Northern Ireland which has boosted travel demand. "The atmosphere is right for the new service," Brian Beal, managing director of Air Belfast, said last week, coinciding with the unveiling by Britain and Ireland of peace plans for the troubled province. Air Belfast will fly between Belfast International and London's third airport, Stansted.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	11	9	12	10	12
Hong Kong	18	20	25	24	22
London	7	12	11	11	11
Frankfurt	5	8	10	9	8
New York	7	9	6	4	3
L. Angeles	18	18	19	20	19
Milan	10	11	10	11	10
Paris	8	11	12	10	9
Zurich	3	5	9	8	7

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Bonus of contention

Hugh Carnegy on one airline's row with corporate customers

Who should benefit from frequent flyer programmes? The employee who makes the trip (the way it usually works) or the company that pays for the ticket?

This tricky issue has recently produced a row between Scandinavian Airlines System (SAS) and some powerful Scandinavian companies.

SAS refuses to stop giving its Eurobonus scheme benefits to individual travellers. This has made the Swedish Business Travel Association (SBTA) so angry that it will ask the International Business Travel Association (IBTA) – a grouping of big corporations – to take the issue up with the European Union when the IBTA next meets in London on March 8.

Britt-Marie Rosen, travel chief at the Saab-Scania truck and aerospace group and head of the SBTA, says the European Commission should study whether the proliferation of frequent flyer programmes, which now embrace car hire and hotel use, as well as airline seats, constitutes a breach of competition rules.

The association argues that such programmes discriminate against small airline, car hire and hotel operators which do not have the clout to offer such discounts.

"This is a very hot issue," says Rosen. "We have been fighting for three years against the bonus system."

The row has been brewing in Scandinavia since SAS introduced its Eurobonus system in April 1992. The introduction a year later of a parallel corporate programme, offering SAS corporate customers a rebate according to the value of their business, has not blunted the dispute.

It sharpened this year when two big Norwegian companies, Statoil and Aker, dropped SAS for their internal travel in Norway in favour of agreements with the independent airline Braathens SAFE. Subsequently, another Norwegian company, Norsk Hydro, said it had struck a deal with SAS which included an agreement that the airline would not pass on bonus points to Norsk Hydro employees flying on company business.

The SBTA, which groups 80 of Sweden's biggest companies, quickly demanded a meeting with SAS to secure similar concessions. But SAS refused to budge, denying any such agreement had been fixed with Norsk Hydro and insisting that it would not link the Eurobonus scheme with its corporate rebate programme.

"We are very clear about our strategy," says Bi Kreimer, in charge of customer programmes at SAS. "All our competitors have these programmes. In order to compete, we have to keep the Eurobonus and corporate programmes separate."

SAS insists that the Eurobonus benefits of free flights (and/or car hire and hotel stays) do not constitute a discount. "Bonus point trips are offered on an availability-only basis," says Kreimer. "They would otherwise have been empty seats. SAS does not save any money if bonus points are not used."

She adds that if companies want to bar their employees from using bonus points earned on company business – or use the points for company travel instead – that is up to individual companies to arrange. "We cannot interfere with that."

But the companies say it is hard to monitor what points are accruing to an individual. At the least, they want SAS to report the points earned to the company.

Rosen says the SBTA is approaching other airlines competing on SAS routes to see if they can offer a solution. "We will continue to fight this issue because these schemes are wrong," she declares.

Smart Guide: Nairobi

East Africa's wealthiest city

Which is the best area to stay in?
Nairobi is no longer the elegant city which made it a magnet for European settlers and minor nobility. Its streets are pot-holed, traffic lights don't work and the buildings clustered around the small town centre have grown shabby through neglect. But it is still the wealthiest city in east Africa and the one with the best communications, hotels and banking services.

Most hotels are situated in or near the city centre. Getting around is not a problem: the better part of your business will be conducted within a small radius, a walk or short taxi ride away from your hotel. Jomo Kenyatta airport is 20km outside the capital, on the road to Mombasa. On arrival, use the taxi services of the Kenatco co-operative. They have a stand at the airport lobby, are reliable and charge fixed rates for the ride into town.

Hotels?
The Norfolk Hotel, built in 1904, soon after the railway reached Nairobi, retains its colonial charm. The Lord Delamere bar on the outside terrace is virtually unchanged from the days when settlers would come down from the White Highlands to do business there and get plastered. It is still a popular watering hole. Try to stay in one of the 20 original cottages built around the inner courtyard ($335 for a single bedroom cottage). The Nairobi Serena, across Uhuru Park, is also set in beautiful gardens, and has the best swimming pool and health club facilities in town ($230 a room).

The Grand Regency is Nairobi's newest five-star hotel, a marble and smoked glass extravaganza built with illicit funds. Its owner is now in jail, but the hotel continues to function under Central Bank receivership ($214 a room). Golf enthusiasts should stay at the Windsor Golf and Country Club, 20 minutes outside Nairobi, set in the midst of Kiambu's rolling hills and coffee estates ($171 a room).

How about restaurants?
The Tamarind on Harambee Avenue is probably east Africa's finest fish restaurant (there is also a branch in Mombasa). Its Lamu crab, served plain or in a spicy ginger stew, is a favourite, as are its lobsters and langoustines, flown fresh each day from the coast. Game is a specialty of the Carnivore, outside Nairobi on the road to Langata. Zebra, giraffe, gazelle, wildebeest and crocodile are grilled over a large charcoal fire. The Carnivore bar also has lively bands and rock and roll nights on Wednesdays.

Kenyan food is bland and uninteresting compared with its spicy west African counterpart. On the other hand, the large resident Asian community in Nairobi has given Nairobi some excellent Indian restaurants. Ethiopian cuisine is also well represented.


A giftshop in Nairobi

Is there much entertainment?
Nairobi tends to close down early: it is difficult to find a restaurant open after 10pm. The Casino on Museum Hill is a popular venue for the Asian community, as it also has a disco which plays a lot of Bangra music – a hypnotic kind of Indian reggae.

Buffalo Bill's, the Zanzi Bar and Florida 2000 are popular bars/dance venues, although single men are likely to get harassed by prostitutes. Zairean bands – which play the best music in Africa – often come to Nairobi. Check the Daily Nation for venues.

What are the local quirks?
Dress formally. Kenya is a very conservative society. And be patient: African time moves in a different way to European or American time.

It is sometimes difficult to get appointments with government officials, although the business community is more straightforward. The bureaucracy can be frustrating. Be patient and never show condescension – Kenyans will be offended, but will not show it.

What should I do if I have a spare day?
If you have never been on a game safari and don't have time (such as a weekend) for a short visit to the Maasai Mara game reserve (which is to be recommended), keep an afternoon free for Nairobi's own national park. The main entrance is on Langata Road, 15 minutes out of town. You are very likely to see zebra, giraffe, gazelle, baboons, buffalo, ostrich, hippos, lions and various species of antelope. It is also one of the best parks for spotting white rhino. The concentration of wildlife is greatest in the dry season (August-September).

It is also worth spending a day exploring the Great Rift Valley. The main road to Uganda passes through some spectacular scenery along the edge of the escarpment. Two hours out of Nairobi you reach Lake Naivasha, teeming with hippos and bird life. The Country Club serves a pleasant lunch.

Leslie Crawford

Why stop hunting if it's in the blood?

SPORT

KEITH WHEATLEY

Most of us learned in school that debate capable of changing minds on the subject of fox hunting is near impossible.

On Friday, the Wild Mammals (Protection) Bill goes before Britain's House of Commons, and could eventually outlaw fox hunting and other forms of hunting with dogs. Without the provision of government time, this proposal cannot become law. But its supporters hope to secure a public relations coup through a Commons majority. If abolitionists were henceforth able to say that even parliament was now against blood sports, could anyone seriously doubt that such sports would disappear from Britain within a year or two?

The £300,000 anti-hunting advertising campaign which began last weekend equates huntsmen with US serial killer Jeffrey Dahmer. It shows how hard the animal rights lobby is willing to play this game. Probably, nothing I write here will change anyone's mind. But, given a soapbox, it seems idle not to stand on it.

Perhaps the current zeal for ending a useful sport enjoyed for centuries in the British countryside may turn out to be a mood, no more – the equivalent of America renouncing drink for the decade of prohibition. Unlike prohibition, however, there can be no repeal.

If a subsequent generation decides we are wrong, there will be no turning back. More than 300 packs of foxhounds, representing generations of scientific breeding, will be sent abroad or destroyed. Some hunts are already quietly researching "emigration". Packs may go to Ireland, where hunting is a much enjoyed and esteemed sporting tradition.

Often, supporters of hunting choose to make their case in utilitarian terms. Britain's hunts provide 33,000 jobs, directly or indirectly, and pump £150m a year into rural economies which often do not have many alternatives.

Booming sports such as point-to-point racing, enjoyed by thousands of non-hunters every weekend, would disappear without the hunting that underpins them. Yet if that were all the hunters had to rest their case on, a sympathetic abolitionist/interventionist government would only have to introduce measures to alleviate the loss of income a ban on hunting would entail. Doubtless Brussels has money to help out as well.

But no sport should have to be defended with macro-economic arguments. It exists on its own terms, or not at all. The animal rights argument over foxes seems to be the thin end of a very large wedge. To use a lawyer's phrase, one can accept a "duty of care" towards one's pets or even to farm animals in a barn. They almost owe their existence to man, and we could scarcely connive at their ill treatment.

> The thought that hunting might be made illegal without my ever experiencing it is dreadful

Yet surely wild animals are different. We owe them nothing, nor they us. When we go into their world of copse and spinney on horseback, with dogs who may or may not follow our urgings, we return to our base roots, pretty much as we do when viewing a Quentin Tarantino movie in Chelsea.

I wouldn't hunt a fox with a rifle with a nightscope but I can't see much harm in going out on "all fours". If this is really a question of morality and ethics, why is the town/country split so pronounced? Are urban humans so much better people than the rural folk in smocks and LandRover Discoveries? Why do Devon foxes have a greater right to life than Camberwell rats? No one has yet suggested that rodent-infested city-dwellers shouldn't be allowed to put trays of the dreadful Warfarin down on the kitchen floor.

You probably think I am showing my true colours. Here is a man, you think enviously, who spends half his time attending sports events we'd all love to be at, the other half riding to hounds accompanied by ladies in close-fitting jodhpurs and pink jackets. Eating pâté de foie gras to the sound of trumpets, as Sydney Smith might have put it.

Actually, I can't ride. I would love to hunt, but skill with the reins and a decent horse seem to be prerequisites, and growing up in suburban Manchester with compulsory rugby on Wednesdays and Saturdays didn't offer much scope.

But I will admit to a small involvement with the bloody *terroir*. Occasionally at dawn on a winter Saturday my 12-year-old daughter and her pony go off with the local farmers' hunt. I hitch up the horse box and take them to the meet. I love the frost, the master's horn, the hounds' baying and scuffling around.

It would be wonderful to take part, and envy poisons my heart as I watch them canter off down the Exe Valley. Like most hunts they don't catch many foxes, but there are a few each season. Elise Wheatley is a hard woman-to-hounds, and doesn't seem bothered by the odd bloody corpse.

If you live in the country, fluffy pet cats depositing headless baby squirrels in the laundry room is a far more common occurrence than seeing the Silverton Hunt despatch Reynard. As Samuel Johnson might have said, the threat of abolition concentrates the mind wonderfully, and for me the thought that hunting might be made illegal without my ever experiencing it is dreadful.

This summer it will be riding lessons. In November, the chase. I shall report back in due course.

Michael and Patty Hopkins deserve equal recognition, writes Colin Amery

A knight without a dame

This is a plea for damehood. In a world of equal opportunities, the architectural profession lags miles behind in the recognition of female skills and the importance of the role of women. When Michael Hopkins, the architect of Glyndebourne, was rightly knighted recently, there was no reward for Patty Hopkins, despite the fact she is his architectural as well as marriage partner.

His practice has thrived because of her total involvement in design work and the running of the public and private sides of the office. It should have been Dame Patty and Sir Michael Hopkins.

In a recent article in Perspectives magazine – the architectural magazine that is now clearly leading the architectural debate – it was shockingly revealed that only 9 per cent of Britain's architectural workforce is female. Thirty per cent of doctors are women and 31 per cent of all solicitors.

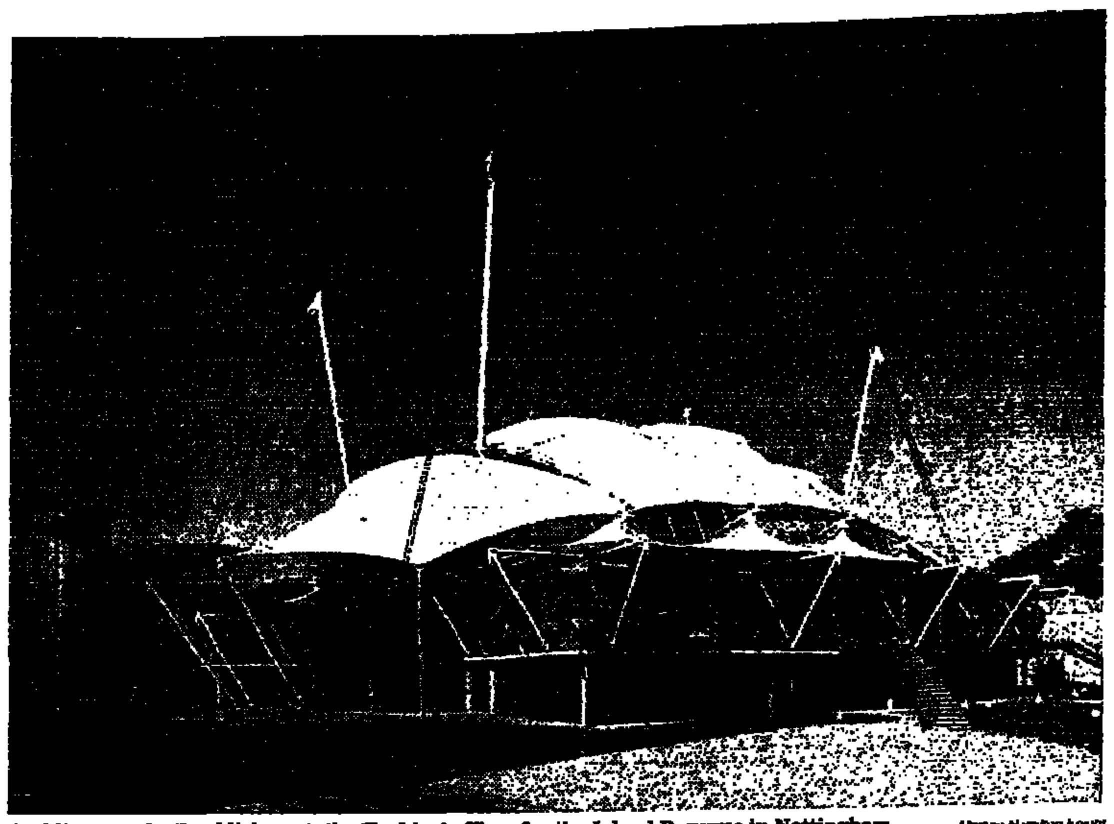
Why architecture lags remains something of a mystery. I suspect it is the last bastion of male chauvinism, partly because almost all builders are male and partly because long training periods and long working hours seem to have been devised by men to keep them away from home and the family.

One architectural critic, now based in Scotland, who had better remain nameless, claims that women cannot see in three dimensions! This clearly explains the lack of women sculptors, painters and architects.

Dame Patty Hopkins has herself had an enormous input into the work of Michael Hopkins and Partners. From my agreeable experience of being in their company, sometimes in their office or their home, it is clear that both of them see everything in three dimensions and that Patty's contribution has been to make the work of the practice more approachable and acceptable.

This is not to say that she does not follow a very disciplined approach to design. I have not forgotten the immaculate order of the Hopkins' Hampstead house, where the red and blue towels are always perfectly arranged. The domestic order speaks of a mind that sees in three dimensions, if not four.

However, Michael and Patty Hopkins did receive the royal gold medal of the Royal Institute of British Architects together, and this was undoubtedly a recognition of their joint achievements. It is now commonly said that they represent the acceptable face of modernism and have become architects to the Establishment. This is true.



Architects to the Establishment: the Hopkins' offices for the Inland Revenue in Nottingham *Martine Hamilton Knight*

The recent opening of the nearly completed offices for the Inland Revenue in Nottingham marks the final transformation of the firm from young radicals to official architects to the government.

When Michael Hopkins won the Financial Times architectural award some 15 years ago, it was for a small, metal-clad building for a modest brewery in Suffolk. But it was made clear then that he had ideas about construction and prefabrication that would place him in the top echelons of British architects.

I happen to believe that much of his success followed from his conversion of the former headquarters of the FT, Bracken House, close to St Paul's Cathedral in London. This was a listed building designed by a traditionalist architect, Sir Albert Richardson, but built as late as the 1950s.

The fact that it was based on a classical palace in Turin and adapted the technology of a newspaper printing plant to an Italian palazzo, clearly interested Hopkins. He saw in Bracken House the potential of stone, bronze and "real" materials. He had always experimented with new materials – his Teflon canopies at Lord's cricket ground in London come to mind – but now, especially at Nottingham, these rarified materials are combined with much more traditional ones.

In Nottingham, the scheme for our tax masters is a massive one. There are heavy brick piers and solid vaults. There are 40,000 square metres of offices for the Inland Revenue organised into six buildings on a kind of campus plan. The buildings cluster around one of the Hopkins' tent-like structures, which rejoices in the unappealing name of the amenity building.

At the joints of the long blocks there are circular towers of glass. The structure of the main offices consists of load-bearing brick piers – rather like his Glyndebourne scheme – which are built of traditional English bricks made in Furness.

Several Hopkins signatures can be seen in this building: the curved ends with their semi-circular roofs, the concrete soffits that increase the thermal mass, and the general solidity contrasting with the one wild touch of the PVC tent structure. Some 1,800 tax gatherers will work in these buildings, which are handsome and cost £76m.

There is not so much evidence of the hand of Patty Hopkins in the Inland Revenue scheme, but her skills will be very evident in the new London parliamentary building which is growing on the site opposite Big Ben. Inside, there will be gothic vaults and a sense of continuity with the existing Palace of Westminster.

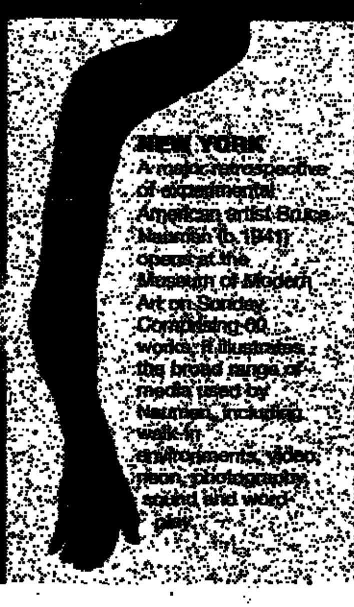
The Hopkins are undoubtedly a brilliant team, and they produced an excellent master plan for the Victoria & Albert Museum, which seems sadly to have been quietly abandoned.

The work of this team and their practice is the best example of British architectural pragmatism at work. They have learned from the past without compromising their convictions. Patty Hopkins has recently joined the Millennium Commission, which will spend millions raised by Britain's national lottery. Her influence there will be good – not just on behalf of architecture but on behalf of women.

ARTS

OPENINGS

LONDON
Maurice Béjart brings his Lausanne Ballet for a week's season in London at Sadler's Wells. The opening gala tomorrow night will feature Sylvie Guillem (below) and Laurent Hilaire in 'Episodes' made specially for them last year

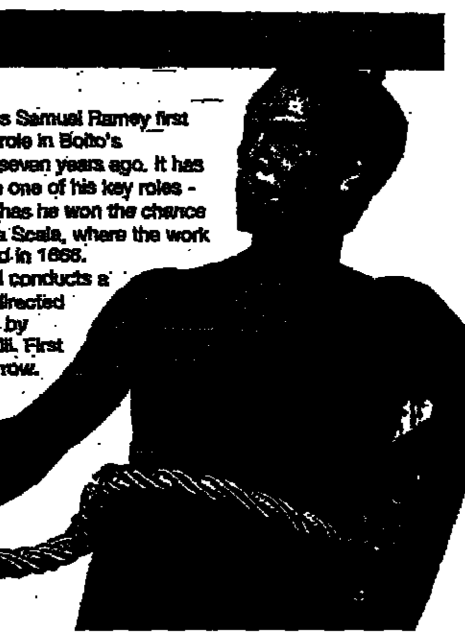


NEW YORK
A major retrospective of experimental American artist Bruce Nauman (b. 1941) opens at the Museum of Modern Art on Sunday. Comprising 60 works, it illustrates the broad range of media used by Nauman, including walk-in environments, video, neon, photography, sound and word-play.

MADRID
Sebastiano del Piombo was an early 16th century Venetian painter who trained under Bellini and was influenced by Giorgione and Michelangelo. The Prado has organised an exhibition of his works currently in, or formerly from, Spanish collections. The show opens on Wednesday and runs till the end of April.

PRAGUE
When Kokoschka left Nazi Germany in 1934, he emigrated first to Prague. In his four years there - before fleeing again, this time to London - he painted the city and its river with colourful baroque sensuousness. An exhibition opening at the Czech National Gallery tomorrow includes his portraits and allegorical compositions, besides his cityscapes.

MILAN
American bass Samuel Ramey first sang the title role in Boito's "Mefistofele" seven years ago. It has since become one of his key roles - but only now has he won the chance to sing it at La Scala, where the work was premiered in 1868. Riccardo Muti conducts a new staging directed and designed by Pierluigi Pierallli. First night is tomorrow.



A high-tech musical melting pot

Cité de la Musique is the fifth of the 'grands travaux' initiated by President Mitterrand. Andrew Clark reports

Nothing demonstrates the French government's cultural vision better than the Cité de la Musique, a FFr665m ($130m) education and performance complex on the edge of Paris. Inaugurated last month by President François Mitterrand, it represents a huge investment in the future – for training young musicians, developing new audiences and encouraging cross-fertilisation between classical, popular and ethnic traditions.

The Cité de la Musique – the City of Music – is the fifth of six *grands travaux* initiated by President Mitterrand since he took office in 1981. Only the new National Library will be unfinished when he retires in May. Of all these monuments – including the glass pyramid at the Louvre and the Bastille opera house – the Cité promises to be the most practical and democratic. It embraces a concert hall with flexible acoustics and performing area, a new home for the Paris Conservatoire, the headquarters of the Ensemble InterContemporain, a high-tech musical museum, a music information centre open to the public, a national music teachers' institute and a residence for students.

"We want to bring together music education and performance, to be a permanent melting pot for young musicians and experienced professionals," says Brigitte Marger, the Cité's director. "We also want to reach a new and broader audience – people who are curious about music but would never go to a city-centre concert hall. And we want to bring down the barriers between various kinds of music."

The inaugural concert, featuring the Conservatoire Orchestra alongside contemporary and early music ensembles, was conducted by Pierre Boulez and William Christie. Other programmes have included North African music, jazz, ritual music from Japan and a BBC Symphony Orchestra programme of Stockhausen and Ives. Future plans include concerts by the Chamber Orchestra of Europe under Claudio Abbado, a Steve Reich weekend and programmes of Balinese and Brazilian music. Abbado and Boulez will supervise a summer school.

Public reaction so far has been mixed. French music critics have dismissed the Cité's diversified programme as trivial and "demagogic", saying it tries to cater for too many tastes. Other commentators are sceptical about attracting a broader public to serious music.

There have also been varied responses to the revolutionary new concert hall, a pet project of Boulez seating between 800 and 1200. With its oval shape, mechanised wall-curtains and sound-reflectors hidden above a ceiling-grille, the hall offers vast scope for acoustical adjustment, depending on the type of music and number of performers. This excites contemporary music specialists such as David Robertson, chief conductor of the Ensemble InterContemporain, who is glad to jettison "the whole idea of a concert hall as a classical place of worship, in favour of an area where the public gets closer to the music and sound itself becomes a malleable substance".

But it raises one of the classic problems of contemporary music – the fact that changing the acoustic and stage lay-out often takes far longer than the music being played. Due to the delicacy of the sound-system and the experimental nature of performances so far, many visitors have been alarmed by the way the acoustic magnifies the slightest audience noise.

Despite these reservations, no one questions the enormous sums being spent. And there has been a unanimous welcome for the buildings. Designed by French architect Christian de Portzamparc, they comprises two adjacent blocks – one housing the Conservatoire and its 2,000 students of music and dance, the other holding two performance halls, the museum, offices and student accommodation. Unlike the other *grands travaux*, there are no dramatic gestures. The buildings are asymmetrical but harmonious, with smooth off-white cladding and a combination of straight lines, curves and spirals. They are easy to use and fit into their environment.

The idea of the Cité de la Musique was born in the heady early days of President Mitterrand's Socialist government. There was an urgent need to move the Conservatoire out of central Paris, and the idea of linking it to a non-elitist music centre matched the new policy of popularising culture. The 135-acre Parc de la Villette in north-east Paris offered an ideal site. As part of a plan to revive a depressed district once crowded with slaughterhouses, it had already been chosen as the home of a popular science centre, a rock concert hall and a large exhibition area. Today, the park draws tens of thousand of visitors from nearby suburbs who rarely visit the city centre.

These people form the Cité's potential new audience, according to Marger. "Around us is a population of nearly six million, of great cultural diversity. Why shouldn't they have a place of their own to go? Why should a city's cultural equipment be confined to the centre? That seems to me a form of prejudice."

Most of the Cité's public events take place at the weekend, and include rehearsals, workshops and afternoon concerts targeted at casual daytime visitors. Marger says that "in a music establishment at the end of the 20th century, it's not fair to cater for only one tradition of music or one type of audience. Going to a concert in the evening belongs to a culture which is not the culture of the people we want to reach. They have a huge curiosity for music, but they find traditional concerts too rigidly organised. They are asking for something more flexible."

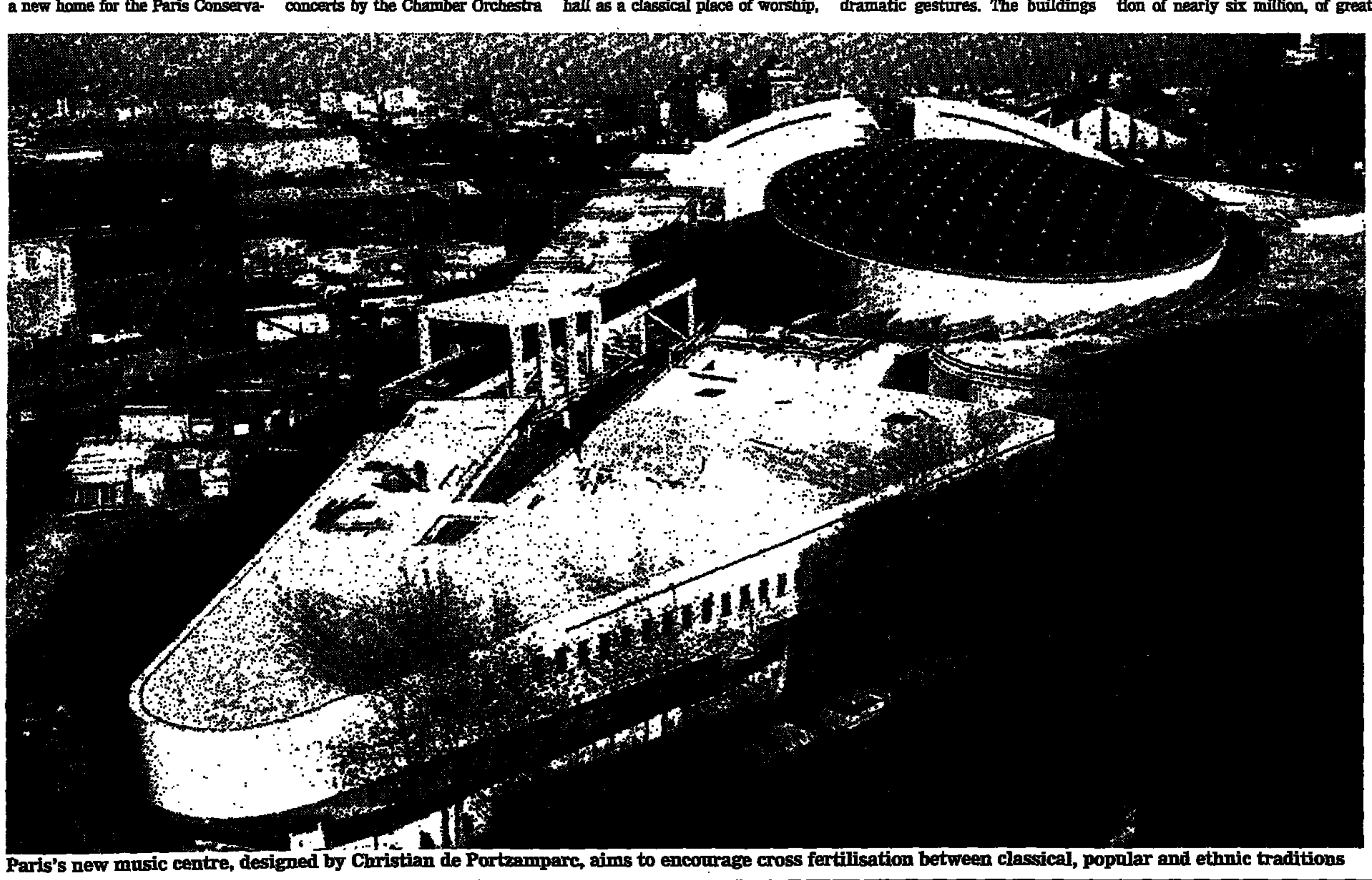
Marger says the new museum, due to open in June, will play a vital role in meeting this need. Apart from housing the Conservatoire's collection of 4,500 instruments, it will have temporary exhibitions with CD-Rom technology, a small amphitheatre, a café and bookshop. "It will be a vast *porte ouverte*, in which people can see and understand something about music very quickly."

The Cité's schools programme has already made an impact. Renaissance specialists have led workshops in which children learn how to observe period style on their own modern instruments. There is a studio where young musicians can record what they have played, and a room where they build musical instruments.

Most of the money for this comes from the government, which has contributed FFr113m towards running costs in 1995 – the second highest performing arts subsidy in France after the Paris Opéra. A fifth of the budget comes from non-government sources. For the paying visitor, the most expensive concert costs only FFr160, with extensive discounts for families and students.

Marger says the programme for the first year is "a statement of what we want to do, even if we don't succeed". She defends the inclusion of big names in the concert programme, saying "you can't afford to be second rate. It's important for young musicians to have the chance to hear big artists, and the big names want to keep in touch with young performers." She also hopes that rock stars will play with other musicians at the Cité.

Her goal is to reinstate the original plan for a 2,700-seat concert hall, which was wiped out by financial cuts in the late 1980s. "You can't do really ambitious projects unless you have a big symphonic hall. There is no good concert hall in Paris, so perhaps we could provide a home for a resident orchestra. That's where you make money and reach the largest public of all."



Paris's new music centre, designed by Christian de Portzamparc, aims to encourage cross fertilisation between classical, popular and ethnic traditions

Opera

Janáček's hymn to nature

The Cunning Little Vixen is back at the Coliseum, and very welcome too. Janáček's tender, dispassionate little animal-opera is a tonic at the end of winter, and David Pountney's production – almost 15 years old now – still looks fresh and funny.

In fact Maria Björnson's sets and costumes have been "refurbished and re-made" for this revival. The silly hens are still Mrs Mopp cartoons, in kerchiefs and boots (although only one of them now has a fag glued to her lower lip); the Dog is a huge, floppy soft toy.

The children who play the smaller animals – birds, insects, moles, fox-cubs – revel in their fanciful get-ups, if not in their mostly inaudible words.

The seasons roll by with minimum fuss: the wintry dust-cloths shrouding the stage are yanked away down a hole, and lo! – instant spring.

The Vixen herself is again Lesley Garrett, ultra-lively and in bright, commanding voice. This revival has been entrusted to Pountney's original choreographer Stuart Hopps, and it looks choreographic almost to a fault.

There is a whiff of the Isadora Duncans in Miss Garrett's exuberant brandishing of the ostrich-stole that stands in for her brush, and the silver dragonflies preen like camp-classical visitors from the Folies-Bergères. Sara Fulgoni is the new dog-fox, all virile modesty and charm.

The conductor, Stephen Barlow, has a confident, incisive way with the music. One would never guess at the problems that Janáček's idiosyncratic scoring sets for the orchestra. In the raucous wedding-celebration, however, the off-stage chorus made a pallid sound where they ought to be in lusty competition with the band; we missed the full, explosive joy of the release.

The human characters are excellent, among them a particularly woebegone sketch of the Schoolmaster by John Graham-Hall.

Nicholas Folwell, the new Forester, is tough and upstanding; with another performance or two, he may relax more warmly into his final peroration. It is, after all, old Janáček's benediction on the whole natural world, and it wants all the generosity a Forester can muster. It is nice to be sent home with the feeling that Nature is still in pretty good order.

David Murray

Revival sponsored by Flemings. Further performances March 2, 4, 8, 10, 13 and 16.

INTERNATIONAL ARTS GUIDE

BERLIN

GALLERIES
Deutsches Historische Tel: (030) 215 020
● Art from the GDR 1949-1990: exhibition that looks at politically commissioned art in the old German Democratic Republic; to Apr 18
OPERA/BALLET
Deutsche Oper Tel: (030) 341 9249
● Les Intermittences du Coeur: ballet in two parts by Saint-Saëns. Choreographer, Roland Petit; 7.30pm; Mar 2

LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● Brahms Evening: Sir Simon Rattle conducts the City of Birmingham Symphony Orchestra with violinist Maxim Vengerov; 7.30pm; Mar 4
● Britain at its Best: Yehudi Menuhin conducts the Royal Philharmonic Orchestra to play Elgar, Britten and Vaughan Williams; 7.30pm; Mar 3
● Pierre Boulez 70th Birthday Celebration: Boulez conducts the London Symphony Orchestra with violinist Kyung-Wha-Chung to play Ravel, Bartók and his own 'Figures, Doubles, Prismes'; 7.30pm; Mar 2
Festival Hall Tel: (0171) 928 8800
● City of Birmingham Symphony Orchestra: wirh sopranos Faye Robinson and Cynthia Clarey and tenor Phillip Langridge. Sir Simon Rattle conducts Pavel Haas, Schoenberg and Tippett; 7.30pm; Mar 3
● Philharmonia Orchestra: Christoph von Dohnányi conducts Brahms' symphony No. 3 and No. 1; 7.30pm; Feb 27
● The London Philharmonic: Franz Welser-Möst conducts Mozart, Bartók and Tchaikovsky; 7.30pm; Mar 2
● The London Philharmonic: Franz Welser Möst conducts Shostakovich and Strauss; 7.30pm; Mar 5
Westminster Abbey Tel: (0181) 928 8800
● Music for Queen Mary: on the 300th anniversary of her funeral. Martin Neary conducts the Westminster Abbey choir and the New London Consort to play Purcell, Blow and Morley. Part of the Purcell tercentenary celebrations; 7.30pm; Mar 5
GALLERIES
Festival Hall Tel: (0171) 928 8800
● After Auschwitz: exhibition of paintings, scupture and photography produced by 21 contemporary artists in response to the Holocaust; to Apr 17
National Gallery Tel: (0171) 839 3321
● Spanish Still Life: from Velázquez to Goya. Exhibition of 16th-17th century Spanish paintings by artists such as Cotán and Zurbarán; to May 21
Roy Miles Gallery Tel: (0171) 495 4747
● Anderson and Low: platinum-palladium prints of images based on classical themes, ranging from sculpture and Renaissance tableaux to geometrical studies; to Feb 28
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● Madama Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30pm; Feb 28; Mar 3
● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a Mafia boss; 7.30pm; Mar 1
● The Cunning Little Vixen: by Leoš Janáček. Original director, David Pountney; 7.30pm; Mar 2, 4
Royal Opera House Tel: (0171) 340 4000
● Der Rosenkavalier: by Strauss. Conducted by Andrew Davis, directed by John Schlesinger. Soloists include Felicity Lott/Anna Tomowa-Sintow as Prinzess von Werdenberg; 6.30pm; Mar 1, 3
● La Bohéme: by Puccini. Conducted by Simone Young/Paul Wynne Griffiths, directed by John Copley. Soloists include Angela Gheorghiu/Amanda Thane as Mimi and Maria McLaughlin/Judith Howarth as Musetta; 7.30pm; Feb 28; Mar 2, 4, 6
THEATRE
Aldwych Tel: (0171) 836 6404
● Indian Ink: by Tom Stoppard. With Felicity Kendal, Margaret Tyzack and Art Malik; from Feb 27 (Not Sun)
Barbican Tel: (0171) 638 8891
● New England: Richard Nelson's new play; 7.15pm; Mar 1, 2
Barbican Theatre Tel: (0171) 638 8891
● The Venetian Twins: by Carlo Goldoni in a new version by Ranjit Bolt, and directed by Michael Bogdanov; 7.15pm; Mar 6
National, Lyttelton Tel: (0171) 928 2252
● What the Butler Saw: by Joe Orton. Directed by Phyllida Lloyd, with John Alderton as Dr Prentice, and Richard Wilson as Dr Rance; 7.30pm; Mar 2 (7pm), 3, 4 (2.15pm)
National, Olivier Tel: (0171) 928 2252
● The Merry Wives of Windsor: by Shakespeare. Terry Hands directs his first production at the National. With Denis Quilley as Falstaff, Brenda Bruce as Mistress Quickly and Geraldine Fitzgerald as Mistress Ford; 7.15pm; Feb 28; Mar 1, 2 (2pm), 3, 4 (2pm)

MADRID

GALLERIES
Prado Tel: (91) 420 28 36
● Sebastiano Del Piombo: Venetian born artist of the Italian Renaissance. This exhibition explores his influence on Spanish painting during the 16th and 17th centuries; from Mar 1 to Apr 30

NEW YORK

CONCERTS
Avery Fisher Tel: (212) 875 5030
● New York Philharmonic: with baritone Dmitri Hvorostovsky and conductor Valery Gergiev plays an all Russian programme of Mussorgsky and Rimsky-Korsakov; 8pm; Mar 2, 3, 4
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Der Rosenkavalier: by Strauss. Produced by Nathaniel Merrill, conducted by James Levine; 7.30pm; Mar 1, 4 (1.30pm)
● La Bohéme: by Puccini. Produced by Franco Zeffirelli, conduted by John Fiore; 8pm; Mar 4
● La Traviata: by Verdi. Produced by Franco Zeffirelli, conducted by John Fiore; 8pm; Mar 2
● Simon Boccanegra: by Verdi. A new production directed by Giancarlo del Monaco.; 8pm; Feb 28; Mar 3, 6
● Turandot: by Puccini. Produced by Franco Zeffirelli, conducted by Nello Santi; 8pm; Feb 27
THEATRE
47th Street Tel: (212) 307 4100
● Jelly Roll!: adapted by Vernel Bagneris who also stars in this look at the musical life of Jelly Roll Morton; 8pm; (Not Sun)
Jean Cocteau Repertory Tel: (212) 677 0060
● The Cherry Orchard: by Chekhov. A new production directed by Eve Adamson; 8pm; to Mar 3

PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● National Orchestra of France: with soprano Yvonne Kenny, tenor Anthony Rolfe-Johnson and baritone Gerald Finley. Arnold Oestman conducts Haydn's 'La Création'; 8pm; Mar 2
● Orchestre du Centre National des Arts du Canada: Trevor Pinnock conducts Schubert, Haydn, Bouchard and Mendelssohn; 8.30pm; Feb 27
OPERA/BALLET
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● La Damnation de Faust: by Berlioz. Conducted by Myung-Whun Chung and produced by Luca Ronconi. Soloists include Béatrice Uria-Monzon as Marguerite, and Thomas Moser/Gary Lakes as Faust; 7.30pm; Feb 28; Mar 2, 5 (3pm)

ROME

OPERA/BALLET
Teatro Dell' Opera Tel: (06) 481601
● Cosi Fan Tutte: by Mozart. The Royal Opera House, London staging directed by Jonathan Miller with conductor Evelino Pidò; 8.30pm; Feb 28

TURIN

OPERA/BALLET
Teatro Regio Tel: 011 8815 241
● A Midsummer Night's Dream: music by Britten, book by Shakespeare. Conducted by John Mauceri, directed by Alfredo Arias. In English; 8.30pm; Mar 3

WASHINGTON

CONCERTS
Kennedy Center Tel:(202) 467 4600
● National Symphony Orchestra: with cellist Carter Brey. Hugh Wolff conducts Mozart, Bartók and Dvořák; 7.30pm; Mar 2, 3, 4
OPERA/BALLET
Kennedy Center Tel:(202) 467 4600
● Manon: by Massenet/MacMillan. An American Ballet Theatre production; 8pm; Feb 28; Mar 1, 2

ZURICH

GALLERIES
Kunsthaus Zürich
● Degas-The Portraits: a major new exhibition; to Mar 5

WORLD SERVICE

BBC for Europe can be received in western Europe on Medium Wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

(Central European Time)
MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

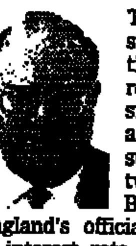
10.00
European Money Wheel
Non-stop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Samuel Brittan

Case for simpler inflation rules



The British system of inflation targets is reaching a crisis point after an amazingly successful first two years. The Bank of England's official explanation of interest rate policy puts a lot of emphasis on the gap between output and productive capacity, and the rate at which that gap is closing. This is highly illuminating in explaining the mechanisms which generate inflation or excess unemployment and the policies which can reduce them. But as an operational guide they are fatally flawed by extreme uncertainty both about how large the gap is and the underlying growth rate.

Now there is another complication, namely the existence of what almost amounts to a dual economy. In the traded sector which produces goods for export, there is on most estimates almost no spare capacity. Indeed, the traded sector may already be operating at a rate at which cost pressures are generated. On the other hand, the consumer sector is pretty much on its back.

Export-led growth is what most of the wise men have been crying out for over many decades. Not surprisingly, the general public, who would rather have more take-home pay for themselves, are not happy. But even the policymakers are in a quandary. Do they tighten monetary policy to ease the cost pressures in the traded sector? Or do they look for an opportunity to ease policy to help the domestic consumer?

A further complication is that most of the inflationary pressures are not coming from the private domestic economy. The main reason why so-called underlying inflation is above the desired 1 to 2½ per cent is the indirect tax increases imposed by the chancellor to reduce the Budget deficit. Without these, we would still be in the target zone, as is shown by the Bank of England indicator RPIY, which excludes indirect taxes.

At present the Bank publishes a mass of indicators, but the route from these indicators to its policy advice is very far from transparent. If inflation targeting is to be rescued, some easy-to-monitor rule is required.

A surprisingly simple feedback rule has been suggested by Dr Peter Westaway of the National Institute of Economic and Social Research. It is that, in any quarter when the underlying inflation rate exceeds 2 per cent, base rates should be raised by one quarter of the difference. This process should be repeated until the target is reached, and reversed if the target is undershot.

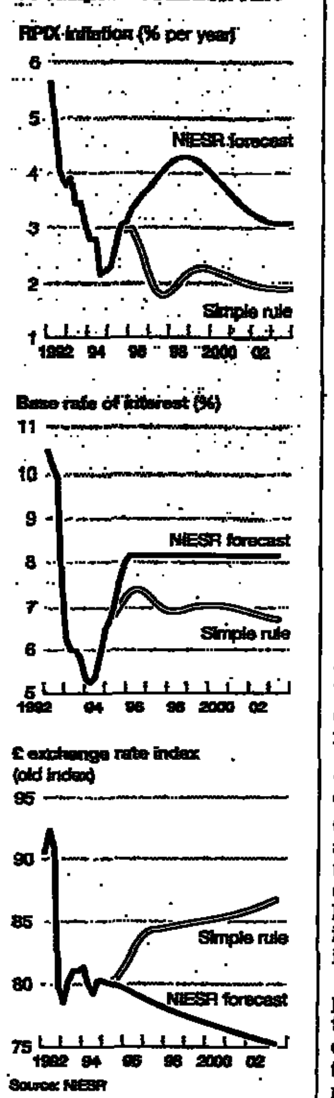
The rule has the admitted disadvantage of being based on present inflation rates rather than future ones, but it has the great advantage of not requiring guesses about hypothetical magnitudes such as capacity utilisation or underlying growth.

The simulations reproduced here are more up to date than those in the February NIESR Review. They assume that the rule comes into operation from the second quarter of this year. The version chosen assumes that it takes financial markets 2½ years to be fully convinced that the government will observe this rule. But a gradual learning process starts straight away. The results are favourable by comparison with the main NIESR forecast.

It is too late to prevent underlying inflation from rising to 3 per cent this year. But this is a peak after which, under the simple rule, inflation falls back to target. This compares with the main forecast where it rises to 4 per cent in the later years of this decade. Base rates do indeed rise again, but by less than in the main forecast where they rise to 8 per cent by next winter.

One of the most important mechanisms by which a better inflation result is generated is through an appreciation of sterling instead of the modest depreciation otherwise believed to be likely. This will become important later in the decade as confidence in the new rule builds up. Of course, if it were to be actually adopted, more research would have to be done – for instance on how the rule might have operated in the past, and not just compared with a forecast. Moreover, it would be more sensible to base it on RPIY so that interest rates did not have to rise because sales taxes are increased to balance the Budget. Nevertheless as a believer in rules rather than discretion, I think this is the most promising approach seen since the demise of monetary targets and the exit from the ERM.

A simple feedback rule



Source: NIESR

Cracks behind the prosperous veneer

Jonathan Miller on Cambodia's efforts to shake off its horrific past and attract investors

Luxury imports: a salesman waits for customers at his shop in Phnom Penh's central market. AP

Nearly 20 years after Pol Pot's agrarian revolutionaries marched triumphantly into Phnom Penh, the Cambodian government is still struggling to erase the image of the Khmer Rouge killing fields from the perceptions of the outside world.

In recent months, energetic expatriate public relations consultants have been recruited to raise Cambodia's international profile. Their mission is to spread the word among would-be foreign investors that the country has changed. And, on the face of it, it has.

The imported luxury goods in downtown supermarkets, Mercedes cars, mobile phones, satellite dishes and steak houses are out of the reach of most Cambodians. But, as with the 5pm traffic jam that clogs Norodom Boulevard in Phnom Pehn, they show how far Cambodia has come since Pol Pot tried to turn back the clock to "Year Zero".

In 1969, before Cambodia became enveloped in war, it had a higher per capita income than neighbouring Thailand. It even attracted more tourists.

Now Cambodians can only look with envy across the border, where Thais earn at least 10 times as much as they do. "We've lost 25 years of socio-economic development," says Mr Vichit Ith, who heads the recently established Cambodia Investment Board. "In order to catch up we have to move fast."

He travels the world hosting "investment roadshows". These are part of a $1m (£670,000) campaign aimed at alerting incredulous executives to the fact that "Cambodia is open for business", and that life in Phnom Penh has improved since they saw the film *The Killing Fields*.

There have been momentous political changes in Cambodia, too, since the UN-supervised elections in May 1993. For centuries the country had been ruled by a succession of god-kings, colonial administrators, military dictators, fanatical Maoists and communists. Today's democratic – if fragile – coalition government appears to represent a big improvement.

As Mr Strobe Talbott, US deputy secretary of state, put it on a recent visit: "For decades, Cambodia was not just the name of a place on a map, but a synonym for horror, despair and man's inhumanity to man. Now, with the emerging triumph of democracy, Cambodia is a word that means hope, promise, courage and the resilience of the human spirit."

Given what Cambodians have been through – more than 1m died during the 44-month Khmer Rouge reign of terror in the 1970s – such words cannot be dismissed as platitudes from a visiting statesman.

But even aid workers, who have dedicated years to helping Cambodia get back on its feet, worry about the country's chances of staging a proper recovery.

Questions have been raised about the secretive nature of costly government deals with foreign companies. Among them are a $1.2bn contract to build an offshore casino-resort, a big logging deal and a joint venture to form a new national airline. Terms and conditions of the contracts do not appear to favour Cambodia, and the government has committed money to some of these projects without the parliamentary approval that is required by the constitution.

There are allegations of high-level corruption and nepotism, the wholesale destruction of the country's natural resources, and political thuggery. Parliamentarians who ask too many questions have been threatened and told to keep quiet.

While corruption might not raise many eyebrows elsewhere in the region, Cambodia – with its economy beginning to recover after more than two decades of war – cannot afford to have its national assets plundered and its scant financial resources ploughed into questionable contracts.

The US-backed right-wing military dictatorship of Lon Nol, who overthrew Prince Norodom Sihanouk in a *coup d'état* in 1970, was notorious for corruption. Mr Chhang Song, Lon Nol's information minister, has returned after a 20-year exile in Long Beach, California. He now heads an agency which he calls Save Cambodia Inc. "OK, so the Lon Nol regime couldn't claim to be clean," he says. "But, honestly, our government was puritanical compared with what you've got today. Now high-level corruption is official."

Mr Song is not the only one making such judgments. Foreign business people, aid workers and diplomats grimace knowingly when the subject of government excesses is raised. "Corruption at every level of society has again become a way of life," wrote a former Australian ambassador, whose final report to his government was leaked to the press.

Last March, Cambodia's international donors pledged $777m towards reconstruction. Only about half of that has been disbursed, but next month many of Cambodia's leaders will be in Paris at the annual donors' meeting urging them to pledge millions more.

During last year's meeting in Tokyo, Mr Sam Rainsy, the reformist who was then finance minister, won many supporters. He impressed donors with his calls for transparency, his emphasis on fiscal prudence and his ambition to extend the east Asian economic miracle to Cambodia.

Observers say his sacking seven months later was linked to the fact that he had made too many powerful enemies in his crusade against official corruption.

"It is criminal to continue to provide support to this government," Mr Rainsy said this month, "without demanding that the government be responsible to itself and to the Cambodian people. The donor community should use its leverage to help Cambodia's leadership stay on the right track." Nearly half the budget is funded by foreign aid.

Because every political party is represented in Cambodia's fractious coalition government, there is no parliamentary opposition and few effective checks and balances on those who hold the purse-strings of the nation. After losing his ministerial post, Mr Rainsy has become the country's self-appointed ombudsman, and his willingness to speak out puts him at risk from many powerful Cambodian enemies.

What worries Mr Rainsy – and a few like-minded politicians – is that the National Assembly increasingly functions as a rubber stamp. The $410m budget for 1995 was rushed through parliament after a day's half-hearted debate.

It approved a big increase in military spending (which already accounts for half of government expenditure) while ignoring the fact that the army already controls vast but unknown revenues from timber exploitation. In the view of foreign economists, the budget pays inadequate attention to rural development.

Investment aimed at improving living conditions in the countryside is regarded by most foreign observers as the only way to end Cambodia's battle against the Khmer Rouge. But senior foreign aid officials believe the war is so profitable that neither side wants it to end.

Behind the veneer of relative prosperity in Phnom Penh, life for most Cambodians has not progressed much since the days of the god-kings. Diplomats note that the past two years have seen the re-emergence of a corrupt elite, many of whose members have returned from overseas exile. The judiciary, meanwhile, is far from independent and the government is struggling with the concept of a free press.

In a country where civil servants have to moonlight to supplement their average pay packet of $20 a month, few Cambodians can expect to see the new 100,000 riel ($40) banknote which is about to be issued. It depicts a garlanded King Sihanouk, shaded by a royal umbrella, dispensing patronage and gifts to the kneeling masses.

"It's a case of back to the future," says a visiting foreign academic who studies Cambodia. "Nothing's changed."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Better to say so near than so far

From Mr Oleh Havrylyshyn.

Sir, Your article "Ukraine at odds with IMF over deal" (February 22) misses the "news" in the story. That a country negotiating with the International Monetary Fund has not yet reached agreement is not unusual, and that until such agreement is reached differences exist, is an almost redundant observation.

The detail in the article about remaining issues is broadly correct, as is the assessment of the domestic political difficulties surrounding the measures in the IMF programme.

But a key part of the story, the important "news", is how much progress has been made and how close to agreement the two sides have come. It is also significant and interesting "news" that, finally, Ukraine, since the election of President Kuchma, has not only begun a significant effort at reform, but continues to move forward consistently, without reversal. The progress on stand-by discussions, and the imminence of an agreement are a fact, and evidence of the continued inertia of the reform effort. The small remaining gap to agreement is also a fact, but I daresay a less interesting one.

Oleh Havrylyshyn,
alternate executive director (Ukraine),
International Monetary Fund,
Washington, DC 20431, US

Tax, not interest rates, should be used to control demand

From Professor Bob Rowthorn and Mr Ken Coutts.

Sir, Our colleague, Wynne Godley, has explained (Personal View, February 21) that for the first time in many years the UK economy is on track for steady recovery with the right combination of export-led growth with consumption growth checked by the phased tax increases of the government's fiscal strategy. The next stage of the recovery will require a large rise in investment, which is at present lacking, to increase capacity which will also help produce more jobs.

Interest rates should now be kept as low as possible to encourage more investment, consistent with maintaining total demand growing at a steady rate. While interest rates may be used for fine tuning adjustments, they should not be used to make a significant adjustment to aggregate demand. If demand begins to grow too rapidly, for example when an investment boom eventually occurs, further tax increases should fall on consumption. The government must not put this strategy at risk by succumbing to the electoral temptation of consumption tax cuts in 1996.

Recent media commentary on the fall in the exchange rate is a reflection of Eurocentric concerns. Sterling has remained reasonably stable against the dollar and the yen while it is the ERM currencies which have appreciated. The adjustment will help maintain buoyant growth in exports net of imports which the recovery strategy requires.

We think that it would be a mistake to use interest rates to support sterling at this stage.

Bob Rowthorn,
professor of economics,
Ken Coutts,
lecturer in economics,
University of Cambridge,
Austin Robinson Building,
Sidgwick Avenue,
Cambridge CB3 9DD, UK

Borderless EU is a reality already

From Mr Fergus P. Rooney.

Sir, I refer to your editorial, "Britain's borders" (February 15). I am an EU national (with dual Irish and UK citizenship), with permanent resident status in Japan. During the summer of 1993, I made a number of entries into the EU from countries outside the EU, more particularly:

- Tokyo-Amsterdam (by air);
- Prague-Dresden (by rail);
- Zgorzelec (Poland)-Goerlitz (Germany) (by foot), and;

Prague-Toulouse (by air, with a change of aircraft at Amsterdam but without leaving the international transit hall).

Apart from walking past a manned passport control desk at Schiphol airport on arrival from Tokyo, where I showed my (unopened) passport, not once was I subject to any sort of identification or passport check on entering the EU.

There was no German passport check on the train from Prague to Dresden. On entering Germany from Poland, I passed through an unmanned border gate at Goerlitz, along with other persons entering the EU on foot. On arrival at Toulouse Airport, the passport control desk was unmanned.

By contrast, passports were checked on each departure from and arrival in Japan, the Czech Republic and Poland, and stamped on departure from Japan and arrivals in the Czech Republic and Japan.

Paradoxically, the one passport check carried out in the EU was at Toulouse Airport prior to an inter-EU flight back to Amsterdam.

Fergus Rooney,
deputy general counsel,
JDC Corporation,
4-34-12-106 Kami Kitazawa,
Setagaya-ku,
Tokyo 156, Japan

South Korea attracted by rising UK productivity

From Mr Phillip Oppenheim MP.

Sir, Chris Pond (Letters, February 22) misses the point in his comments on the reasons why South Korean and Taiwanese manufacturers tend to prefer Britain to other EU countries.

Low labour costs do not necessarily mean low pay, but rather high productivity. Between 1960 and 1990 Japanese workers saw their average wages rise from 10 per cent of US levels to 110 per cent without any loss of competitiveness because they massively increased their productivity.

They achieved this in part through high education standards (produced, incidentally, within a fairly low-cost schools system) and a monetary policy designed to achieve sustainable growth and to encourage savings and investment.

In Britain, by contrast, lax monetary policies and poor general education contributed to our being near to the bottom of the league of leading industrial nations in productivity growth during the 1960s and 1970s, the late 1970s being a particularly poor period.

In the 1980s, and since then, our overall productivity growth has been better than the G7 average and our manufacturing productivity growth was top equal with Japan.

As a result, whereas between 1974 and 1979, when productivity stagnated, the real take-home pay of a single man at the bottom 10 per cent of the earnings distribution fell slightly, a person in the same position has seen a real increase of 23 per cent since 1979.

It is Britain's improved productivity which has primarily attracted inward investment and it is improved productivity which has delivered sustainable higher pay for workers at all levels since 1979.

The only way to ensure better pay and more jobs is to have monetary policies designed to produce long-term, non-inflationary growth, allied to improvements in the quality of our education and training.

To pretend that there is some simple, no-cost remedy, such as the minimum wage or even more regulation, would simply replace low pay with no pay.

Phillip Oppenheim,
parliamentary undersecretary of state,
Department of Employment,
Caxton House,
Tothill Street,
London SW1H 9NF, UK

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday February 27 1995

Body blow to Barings

More than two centuries of history have foundered in three weeks. Barings, the banking group which includes the UK's oldest merchant bank, appears to have been brought down by a handful of risky contracts struck by a single trader on Asian exchanges. Until the details are clearer, it is hard to draw conclusions for banks and their regulators. But some preliminary lessons are possible.

The losses, which are believed to have wiped out Barings' reserves, say nothing new about the dangers of derivatives – financial instruments whose value depends on the price of an underlying stock, currency or commodity. It is hardly a secret that derivatives which bring unlimited exposure to the movement of stock markets – the kind apparently implicated in the Barings losses – are among the riskiest types.

The losses are, above all, a sign of a staggering failure in Barings' internal controls, which apparently gave one person the power to bust the bank. They come, ironically, just months after Barings' triumphant half-year results; at that point, the bank's success was attributed to business in Asia, and to avoidance of the volatile markets which had damaged its rivals.

What, then, should be done by regulators such as the Bank of England? Clearly, it is part of their job to guard against threats to the banking system. But there is no reason yet to think that other UK merchant banks have comparable exposure; it seems alarmist at this stage to discern a threat to the system. Although comparisons have been drawn with the secondary banking crisis of 1973-74, they are premature.

Better rules

Regulators have been under growing pressure to tighten rules governing banks' use of derivatives, and Barings' fate may increase those calls. But devising better rules is easier said than done. Short of banning banks' participation in the derivatives markets, it is hard to see how regulators can prevent such losses. Derivatives are fiendishly difficult to regulate because exposure fluctuates minute by minute; there is no easily available measure of risk. Without having a representative on every trading floor, every day, a regulator cannot know banks' full exposure.

True, regulators can urge banks to adopt sensible procedures for controlling such risks, but those procedures will sometimes break down. For example, one frequent recommendation is that banks should conduct derivatives business through exchanges, rather than over-the-counter, to reduce the risk of counterparties defaulting. But the Barings case offers little comfort, as the trades were all carried out through exchanges.

Unfortunately, it is in the nature of the beast that searching for ways to quantify the risk from derivatives, or for procedures which diminish the risk, is likely to be a waste of time. Regulators might find it more fruitful to concentrate on isolating derivatives from activities which are central to the banking system.

Taxpayers' money

After the dust settles, it could well be worth the Bank of England's time to take a closer look at the exposure of commercial banks to speculation. Unlike Barings, these banks take deposits and have an integral role in the payments system. Heavy losses could threaten those functions.

Banking regulators should strive to avoid the possibility that commercial bank deposits, covered by deposit insurance, are used for speculation. There is no reason why taxpayers' money should be used to support banks' taste for gambling. Instead, trading in derivatives needs to be securely ring-fenced from other divisions of commercial banks. There is, indeed, a case for dividing banking into a low-risk, low-return sector covered by deposit insurance, and an uninsured sector for banks which intend to speculate.

There are, though, limits to regulators' ability to protect the system if banks' internal information is faulty. The spectacle of Barings' collapse may prove at least as effective as regulatory measures, for some while to come, in encouraging other banks to keep their books in order.

Germany's great expectations

The first engineering sector strike in eleven years is unlikely to plunge Germany into a crippling season of industrial unrest. But it is a reminder that the German economy, now flavour of the month among international investors, is finding it increasingly difficult to win similar plaudits at home.

As well as being one of Germany's most powerful unions, IG Metall also tends to be one of the loudest. Few believed that the early posturing of this year's wage negotiations would come to anything but the usual compromise. The union's targeted strike action, which began in Bavaria on Friday, has thus sparked fears that the impressive union moderation of the past two years will not live on through the recovery.

The dangers should not be over-done. Despite the large pro-strike majority in last week's ballots, the leadership appears to have been genuinely reluctant to strike over its demand for a 6 per cent wage rise. Likely as not, the employers' federation, Gesamtmetall, could have won both the desired cost-cutting measures and a more reasonable pay increase if it had agreed to discuss both issues at the same time.

Further reforms

Gesamtmetall was foolish to think that the union would agree further reforms of working practices while a 1995 wage increase was not even on the table. Last month's DGB union confederation agreement on wage and working hours flexibility showed that, despite the recovery, unions remain open to further reforms. The lesson of the strike is rather that members laden with the tax increases they have had to absorb will want to be given something in return.

The 64,000 D-mark question is how much. A three per cent wage increase this year would not recoup the real wage cuts accepted during the recession. It would, however, prevent a further fall in real after-tax earnings following recent tax increases. Now that the rank and file have been enlisted, the engineering workers may hold out for more. But neither the Bundesbank nor the German unemployed can afford a higher going rate for the economy as a whole.

The German central bank's usual response to an excessive leading wage settlement would be a fairly immediate rise in interest rates. Other recent developments have weakened the arguments for an early monetary tightening. Data released last week showed that annualised growth of broad money, M3, was only 4 per cent above the figure 16 months earlier. One cannot read much into the 5.8 per cent contraction on the fourth quarter of 1994, but the trend is clearly downward. At the same time, exporters are worried enough by the recent strength of the D-mark without the added effect of higher interest rates.

Price inflation

The rising currency ought to reassure the Bundesbank that some of the inflationary effect of recent increases in imported goods prices will be contained. Nevertheless, the latter have already contributed to an acceleration in wholesale and producer price inflation. Average growth in seasonally adjusted producer prices – which were stable in mid-1994 – averaged 2.8 per cent in the six months to January. The worry is that these pressures will feed through into consumer prices if growth continues at its present pace.

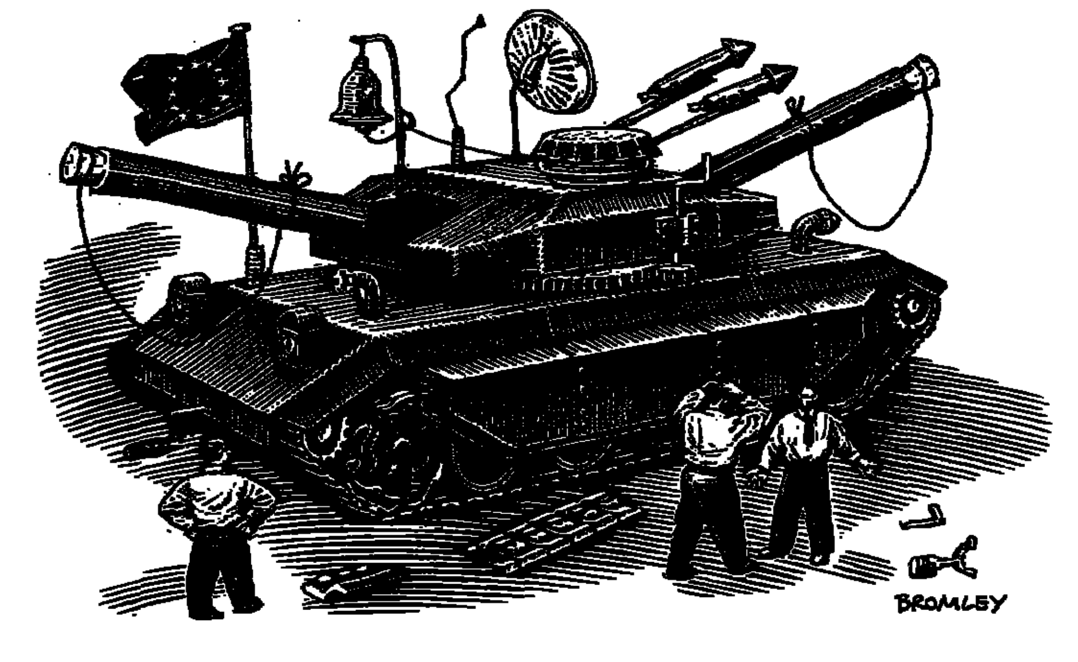
A further 3½–4 per cent rise in wage costs could thus tip the balance in favour of early preventative action by the Bundesbank. But the wage round exposes a more general danger: that Germany's unexpectedly rapid recovery is fuelling popular expectations which the economy cannot fulfill.

With limited spare capacity, the central bank cannot afford to allow growth to exceed 2.5 per cent for very long. Against the background of a tight fiscal squeeze, hopes of lowering the 8.5 per cent unemployment rate therefore rest on leading manufacturing sector unions' willingness to forgo real, after-tax wage growth, and on more rapid job creation in the non-unionised service sector.

IG Metall and other unions have taken note of high unemployment rates in some past wage rounds. The government's thus far puny attempts to free up employment in the highly regulated service industries leave it dangerously reliant on the unions doing so again.

Europe's defence industry must rationalise to fight off aggressive US competition, says **Bernard Gray**

Drive to create order out of chaos



The new Eurostar train service linking London and Paris has been particularly busy lately. This is partly because of the number of defence ministers, businessmen and civil servants who have been shuttling back and forth to talk about how to rationalise Europe's defence industry.

Since the start of the year, Mr Roger Freeman, the UK's defence procurement minister, has been to Paris to discuss the issue; Mr Henri Conze, head of the French procurement agency has spoken on the subject in London; and Mr Michael Heseltine, UK trade and industry secretary, has led a delegation of senior businessmen to Paris to exchange views with their French counterparts on the future shape of the aerospace industry.

Such to-ings and fro-ings have not only been between Britain and France. Mr Freeman also had talks on the defence industry when he met his German counterparts in Munich recently. And more meetings are planned.

The jaw-jaw is illustrative of a growing realisation that Europe's industry must react to the decline in defence spending since the end of the cold war, and the sharp response of the US to reduced levels of defence procurement. "We have to make faster progress on this," says Mr Freeman. "Rationalising in Europe is not an anti-US initiative but a necessary change."

Industry in the US has cut its costs dramatically through a mixture of rationalisation, redundancy and corporate restructuring on a grand scale. US companies have also become much more aggressive in export markets in an effort to replace a reduced domestic workload. European manufacturers will have to find some way to respond if they are to be able to compete.

Unfortunately, getting to grips with the problem is fearsomely complex because of the nature of the European defence industry.

Europe is a patchwork quilt of armed forces with different equipment and different operational needs. It has governments with varying agendas and varying levels of insistence that their arms industry remains independent. And it has private and publicly-owned companies which overlap to different extents in different products.

All of this contrasts with the position in the US, which has a single market and exclusively private-sector companies.

Europe's problem is highlighted by the fact that it is still designing or producing three advanced fighter aircraft, three main battle tanks and two nuclear hunter-killer submarines. The US is only working on one of each.

Some tentative steps are being taken in the direction of rationalisation. British Aerospace, after two years of hard bargaining, is close to a deal with Matra of France which would merge the two companies' missile businesses. Daimler-Benz Aerospace and Aerospatiale are in similar talks. BAe is to market Saab's Gripen fighter. GEC-Marconi, GEC's defence arm, and Thomson of France are considering pooling their sonar businesses.

More substantial progress has been made on cutting costs within individual companies, particularly in the UK. BAe has reduced the workforce in its military business from 48,000 to 31,000 over the past five years, and its sales per employee have risen by 50 per cent. GEC-Marconi has cut staff numbers from 57,000 to 40,000 in the same period.

In continental Europe, by contrast, entrenched employment rights and a political climate which opposes large-scale redundancies mean that companies there remain heavily overstaffed.

Those changes which have already been made in Europe are fairly small beer compared with the scale of restructuring in the US. Employment in the US defence industry has fallen from 1.3m to 800,000 in the past three years. A spate of mergers and asset sales has created larger and more efficient companies.

The debate in Europe is now focusing on what more might be done. Much of the discussion has concerned whether cross-border mergers into single large companies making like products is the best way forward, or whether countries should concentrate on forming large national champions embracing all types of defence business.

Lord Weinstock, GEC's managing director, is a keen advocate of the second approach. His argument is that international structures to generate the required efficiency in the defence field are impractical. He believes that national security is in any event a responsibility of nation states.

By contrast, Mr Conze, the French procurement agency head, said recently in London that, the best way forward for the European defence industry was "through the formation of joint ventures between companies."

Between these two views are a range of people who think that national champions will not produce the necessary rationalisation and will tend to hold their governments captive for orders, but who also accept the difficulty of forging international structures.

In addition to these arguments, some new ideas are beginning to surface. Mr Freeman has suggested that specific military programmes involving collaboration between a number of countries could be handled by a joint project office. "This could run competitions between European companies to supply part or all of a weapons system," he says.

In what would be a crucial change, Mr Freeman says work in such cases would be awarded on the basis of capability and cost, rather than the traditional European method of allocating work on the basis of the amount of equipment each country agrees to buy.

That method is already being used for the Horizon programme to develop the next generation of frigates for the UK, France and Germany. Mr Freeman suggests that, provided countries can agree on a common specification, the idea could also be used for programmes such as a new medium range air-to-air missile for the Eurofighter, and a new family of light armoured vehicles needed by France, Germany and Britain.

Mr Conze thinks that the way ahead is for joint ventures of the type already established between Matra and GEC-Marconi in space systems to be forged. This would allow national companies to form a network of separate alliances focused on individual projects.

Even critics of this approach acknowledge that it is practical and has been very successful for companies such as GEC-Alstom in civil power engineering and trains. But they also worry that it may not generate anything like the efficiency gains that US-style mergers between private companies can achieve.

In more radical vein, some are now questioning whether a lower level of business means that companies must inevitably merge or die. One senior official in the UK's procurement executive points out that employment at VSEL, the Barrow-based submarine-maker, has shrunk from 16,000 to less than 4,000 in a decade – yet the company has not lost the capacity to design and build sophisticated submarines.

He argues that companies could choose to run down, mothball or contract out large parts of their manufacturing, provided they have enough business to maintain design and engineering skills. They would not then have to carry the heavy fixed costs which force consolidation if a strong order flow is not maintained. "For me, he says, the idea of a critical mass below which you cannot go is meaningless."

While there is clearly some imaginative thinking going on, practical developments point up the difficulty of putting them into practice. Discussion about the Future Large Aircraft, the proposed European military transport aircraft, is already being dogged by how many FLAs each country will order and what work companies can expect in return.

The slow pace of such talks illustrates what a difficult task the European defence industry faces in its attempts to rationalise. Equally, a failure to take action will result in an increasingly uncompetitive industrial base which risks being marginalised in the face of aggressive US competition.

As one management consultant who studies the defence industry says: "We do not have to follow the US model to survive and no one sees the road forward clearly. But what is plain to everyone is that we have to do something."

Sunset years for affirmative action

MICHAEL PROWSE on AMERICA

President Bill Clinton's decision last Friday to order a review of federal affirmative action programmes was politically astute. Most Americans readily accept that minorities and women once needed a special helping hand if they were to compete successfully in higher education and the workplace. But many people – especially disgruntled white males – are now beginning to lose patience. They do not believe that preferences based on race, sex and other group characteristics should persist indefinitely and regard them as a source of racial animosity, rather than a cure for it.

As so often, the national debate is being driven by events in California, where Glynn Custred and Thomas Wood, two obscure academics, have stirred intense controversy by proposing to put an anti-affirmative action initiative on the ballot next year. Their referendum would prohibit the state of California and its agencies from using "race, sex, colour, ethnicity or national origin as a criterion for either discriminating against, or granting preferential treatment to, any individual or group..." According to a Los Angeles Times poll, 73 per cent of Californians would support the initiative; nationally, polls suggest that two out of three Americans have doubts about affirmative action.

The Custred-Wood initiative could help define next year's presidential race, just as Proposition 187, the anti-immigration initiative, helped establish Republican-Democratic battle lines last year. By announcing a review, Mr Clinton is trying to limit Republicans' ability to exploit the issue (white males voted decisively Republican last November) without committing himself to action that would infuriate the minority groups that form part of the Democratic electoral base.

Civil rights activists argue that racial equality remains a distant goal. They point out that blacks still earn a lot less than whites, are less likely to have a college degree and are less well represented in desirable professions such as medicine and law. Such arguments still have force, but people are beginning to question the crude emphasis on outcomes and the assumption that all groups are equally talented or motivated. Blacks may constitute 12 per cent of the population, runs the new wisdom, but that does not mean they are entitled to 12 per cent of every desirable position. Nor does it mean that any method of promoting minorities is acceptable.

Some methods certainly look dubious. Can it make sense, for example, for government agencies to offer preferential treatment for minority-owned companies? In what sense is an affluent black owner of a business more deprived than a poor white employee in a non-favoured company?

In their book *The Bell Curve*, Charles Murray and the late Richard Herrnstein raise serious doubts about affirmative action on the college campus. Looking at 26 top colleges, including Ivy League stars such as Harvard and Princeton, they found vast statistical differences in the scores of blacks and whites on the Scholastic Aptitude Test (SAT), one of the main criteria for admission. The mean black score was 180 points, or about 1.3 "standard deviations," below the mean white score. This implies that the average black had a lower score than all but about 10 per cent of the whites admitted. The discrepancy was, if anything, bigger in post-graduate education.

Other things equal, top colleges should show some preference for minorities, say Murray and Herrnstein. But they maintain a bias of this magnitude is unhealthy – and not just for whites. The large gap in average abilities encourages a covert sense of superiority among white students while crushing the self-confidence of many blacks, who drop out in large numbers.

Nor is it just a matter of affluent white students being turned away to make room for disadvantaged blacks. Under the present rules, claim Murray and Herrnstein, to stand a chance of admission, whites from a poor working class background have to show considerably greater academic promise than blacks from a rich professional background. This is because the top colleges aggressively woo black students in order to fill unofficial quotas for minorities; whites enter a separate – and fierce – competition for the non-minority slots.

Affirmative action is, in a sense, unAmerican. No country puts more emphasis on individual rights. Yet preferences based on race or gender mean that outcomes depend not just on an individual's merits, but on his or her membership of a favoured group. This does not mean that affirmative action was wrong. In the early 1960s, white males dominated most walks of life. Since people tend to promote and hire people like themselves, this dominance looked as though it would be self-perpetuating. There was thus a case for jolting the system, even though it meant that some white males, for no fault of their own, would be discriminated against.

But the US now looks ready for a course correction. The message from college campuses and workplaces is that preferences need to be tied to objective criteria of economic and social deprivation, rather than to unreliable proxies such as skin colour or sex. Americans are edging toward a new consensus: the long-term goal must be a genuinely "colour-blind" society in which all individuals are judged solely on personal merit, with no attention paid to race or ethnic group. Affirmative action, in other words, is a temporary expedient, not a way of life.

OBSERVER

World Bank racing news

■ The race to succeed World Bank president Lew Preston could be over in a week or so and the riders are jostling for position as they approach the final hurdles.

The job is in the gift of the US – so there are no foreign runners. And if the World Bank is going to be shaken up at last, then the assumption is that the next president will need two terms (10 years), which lengthen the odds against older runners.

Beyond that the race remains wide open. Wall Street investment banker James Wolfensohn was much fancied at the start. But the US Treasury's Larry Summers, Eximbank's Ken Brody, and Gerry Corrigan, ex-president of the New York Fed have been coming up fast and a late spurt by outsiders such as CS First Boston's Jack Hennessy, Citicorp's Bill Rhodes and Mario Cuomo, the ex-governor of New York State cannot be ruled out.

On paper, Wolfensohn, 61, looks the best bet. His trainers are Robert McNamara, the former US defence secretary who went on to be one of the World Bank's most successful presidents, and Paul Volcker, the former Federal Reserve chairman. However, he has had no public sector experience and his age is starting to count against him.

Summers, 40, a brilliant but abrasive former Harvard professor, has age on his side. But he has clashed with environmentalists and been attacked for his handling of the Mexico financial crisis although his fans think this is unfair. They argue that he has been a lone voice in the US administration calling for closer co-operation between the Fed and the Mexican central bank to avoid just the type of crisis which occurred.

If Summers moves, filling his slot at the US treasury could cause even bigger problems given the US Congress' current mood. That leaves Brody, who has pushed Eximbank into the front line of the US export drive and enjoys good cross party support. His biggest drawback is that he is a buddy of US Treasury Secretary, Robert Rubin. They spent years at Goldman Sachs and Brody's nomination may look a little too much like an old pals act.

Far East dream

■ Talking of succession, when is Sir Willie Purves going to hand in his keys to the chairman's office at HSBC Holdings? He has been running the bank since 1986 and at 63 holds the record as the HongKong Bank's oldest chairman.

His predecessors have all retired when they were in their fifties but Purves still shows little sign of wanting to let go after 40 years with the bank. Even so the clock is ticking and the question of the next chairman is starting to vex City minds. In the past it has promoted its chairman from within and on this basis John Bond, 53, the chief executive, is the natural successor.

However, times are changing. HSBC, as today's results will show, is now a giant British financial institution and its old ways of choosing its chairman may no longer be suited to its changed circumstances. It could follow the lead of other big British banks and opt for a non-executive chairman from outside. Indeed, Sir Adrian Swire, chairman of John Swire & Sons, one of Britain's most successful exports to the Far East, has just joined the HSBC board. He would make an ideal figurehead if Bond is not felt up to the task.

Bitter pill

■ What's this, Martin Ebner, the maverick fund manager who has been making life a misery for the mighty Union Bank of Switzerland, facing a gaggle of dissident shareholders?

The bow-tied corporate governance evangelist got a taste of his own medicine on Friday when he chaired the annual meeting of BK Vision, one of his investment companies. He was asked to justify why BZ Trust, another BZ unit, was taking fat management fees while BK's shares plunged. What checks were there on conflicts of interest among BZ units?

Most embarrassing was a proposal to elect a special board member to represent the punters, whose bearer shares have far less clout than the founders' registered shares. This was an uncanny echo of Ebner's demand last autumn for a director to represent UBS registered shareholders. Like UBS, he saw off the challenge calmly. "We were prepared. We knew that criticism would be organised," he said.

Gracing the earth

■ Fresh evidence that pop stars are more popular dead than alive. The University of Missouri's Jean Gaddy Wilson told a recent conference in Dallas that in 1977 when Elvis Presley died, there were 48 professional Elvis impersonators. Today, there are 7,328. If that growth is projected, by the year 2012 one person in four on the face of the globe will be an Elvis impersonator.

The Financial Times

100 years ago

Belgium and the Congo
The preamble of the treaty for the cession of the Congo Free State to Belgium has just been published. It contains the particulars of the statistics connected with the establishment of the limits of the Congo Free State, and enters into the question of France's right of pre-emption etc. Among the resources which Belgium will be able to draw upon for the Budget of the Free State will be an annual subsidy of 1,000,000 francs granted by the King of the Belgians from his private purse.

50 years ago

International Monetary Fund
The reservations of the Australian delegation [to the Bretton Woods conference] were that the purposes of the Fund, which provide criteria for its management, place too little emphasis on the promotion and maintenance of high levels of employment, and too much emphasis on the promotion of exchange stability.

FINANCIAL TIMES
Monday February 27 1995

US to lift barriers to telecoms investment by foreign groups

By Alan Cane and Emma Tucker in Brussels

Investment barriers which have prevented foreign groups taking more than a limited stake in US telecommunications companies will be lifted this year. Mr Al Gore, US vice-president, said at the weekend.

But the opportunity would be open only to countries with telecoms regimes judged to be as liberal as that of the US, Mr Gore told the first ministerial conference on the information superhighway, organised by the Group of Seven leading industrialised nations in Brussels.

Ministers agreed on principles which sought to balance the need for an open, competitive environment against demands for broad access to the benefits of new technology. "Universal service is an essential pillar in the development of such a policy strategy," said the closing document.

Under Mr Gore's offer, foreign investors from qualifying countries would be able to buy up to 100 per cent of US companies. The UK and Sweden are the only European countries with fully liberalised telecoms regimes.

The way would be clear, therefore, for British Telecommunications to extend its holding in MCI, the second largest US long-distance carrier, in which it has a 20 per cent stake, the maximum under the present rules.

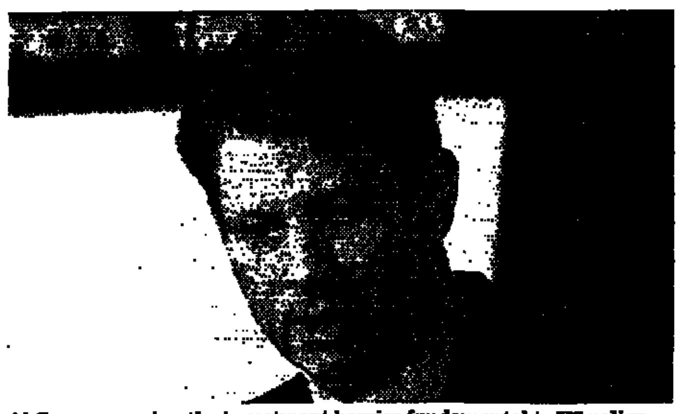
Mr Gore's statement is likely to increase pressure on France and Germany, where state-owned, monopolist suppliers dominate the market, to liberalise before the January 1998 deadline set by the European Union for open competition in telecoms services and infrastructure in the principal European countries.

France Telecom and Deutsche Telekom are planning to link with Sprint, the third largest US carrier, to offer services to international customers. The US Federal Communications Commission has yet to assent to the deal.

Mr Gore said removing the investment barrier was fundamental to US policy which supported competition in open markets, allowing any company to provide any service to any customer. He said: "We are going to change and change this year. Whether by new law or new regulation, we intend to open foreign investment in telecommunications services in the US for companies of all countries which have opened their own markets."

Ministers at the conference generally welcomed the US initiative although it was noted that the US intention was to achieve multilateral removal of investment barriers rather than to lead by example.

The seven countries also launched 11 international pilot projects aimed at showing the benefits of the superhighway. The projects focus mainly on education and training, electronic libraries, and linking national information systems to help manage natural disasters and the environment and global health care applications.


Al Gore: removing the investment barrier fundamental to US policy

Conference report, Media Futures, Page 10

UK wants Europe to collaborate on weapons projects

By Bernard Gray, Defence Correspondent, in London

Mr Roger Freeman, Britain's defence procurement minister, has suggested a European project office could be established to run large international weapons programmes. If successful, it could evolve into a European defence procurement agency.

The suggestion is a counter to plans by the French and German defence ministries for a joint procurement agency. A joint project office could handle international collaborative programmes which were well-defined and had agreed specifications.

Mr Freeman said a new generation of light armoured vehicles needed by the British, French and German governments would be one suitable candidate for administration by such an office. Another is a new medium range air-to-air missile needed for the Eurofighter 2000.

A similar process to such a joint office is controlling the Horizon project to produce the next generation of frigates for Italy, France and the UK.

Mr Freeman said a key aspect of such an office is that it would place orders based on open competition, rather than in proportion to the amount of equipment ordered by each country.

The idea is part of a current debate in Europe about the future of the European defence industry after the end of the cold war and the decline in defence spending.

Mr Freeman said the UK would want to preserve its independent capacity in a small number of strategic areas, such as nuclear weapons, but that in many other areas he was content to see collaboration and interdependence between European partners.

He added that co-operation on weapons procurement did not mean a common defence policy between the partners. "It is possible to separate the way in which we purchase weapons from the roles we ask our forces to take on ... this is a project-oriented approach, we are not talking about structures such as Nato or the Western European Union."

Compromise and political will would be required to make common procurement work. Britain, for example, has traditionally used tracks on some light armoured vehicles, but might consider using wheeled vehicles, as German forces do, if a suitable common design could be found.

Britain made a formal request to join a Franco-German team, designing a new armoured vehicle, at a meeting in Bonn this month. The land vehicles market is one of the most divided in the European defence industry and badly needs rationalisation, say defence analysts. It produces three types of tank and several families of lighter vehicles.

Mr Freeman wants governments to assist a business-led consolidation of the European defence industry as a whole.

Order out of chaos, Page 15

Ministers rally to defend lira after fall to new low

By Andrew Hill in Milan

Italian government ministers and central bankers tried to calm fears over the weekend that the crisis of confidence affecting the lira could deepen.

The lira sank to a new low of L1,120 against the D-Mark on Friday, in spite of Bank of Italy intervention, as investors sold a range of weaker European currencies and backed the D-Mark.

Bank of Italy officials said there was nothing new to justify heavy selling of the Italian currency. "It's raining hard. We've got the umbrellas open, and the raincoat on, but it's not as though there is a flood sweeping us away," one bank official was reported as saying.

However, investors' worries about political and economic tensions in Italy have not been dispelled by the central bank's decision to raise interest rates to combat inflation, or Thursday's announcement by Mr Lamberto Dini, the prime minister, of a L20,000bn ($12.3bn) package of tax and saving measures, to supplement the 1995 budget.

Parliamentary debate of this mini-budget should begin this week but it is still not clear how allies of Mr Silvio Berlusconi, Mr Dini's predecessor as prime minister, will vote. Investment analysts are particularly worried the life of the Dini government may be cut short before it has had a chance to tackle pension reform, one of the main structural problems blighting the economy.

Mr Augusto Fantozzi, Italy's finance minister, defended the budget in an article in the newspaper La Repubblica and called for the support of all political parties. "However rich in technical ability, a government is naturally going to have some difficulty carrying out open-heart surgery on a patient while close relations carry on a violent argument in the operating theatre," he wrote.

Italian political commentators yesterday speculated Mr Berlusconi might toughen his line against Mr Dini's government of technicians, because of a deepening public row with President Oscar Luigi Scalfaro. Mr Scalfaro has resisted Mr Berlusconi's calls for early elections, and, at the weekend accused the former prime minister of threatening Mr Dini's government. Mr Berlusconi replied by accusing Mr Scalfaro of taking sides and using "offensive" language".

The crisis has also led to a new rash of conspiracy theories. The Christian Democratic Centre party, part of the last coalition government, has said that foreign predators were deliberately driving down the value of the lira so they could buy state-owned businesses cheaply in the forthcoming privatisation programme.

However, Mr Rainer Masera, budget minister, warned last week that the main problem was not an assault on the currency by foreign "enemies of the lira" but the potential loss of confidence by domestic investors.

THE LEX COLUMN

Barings blows

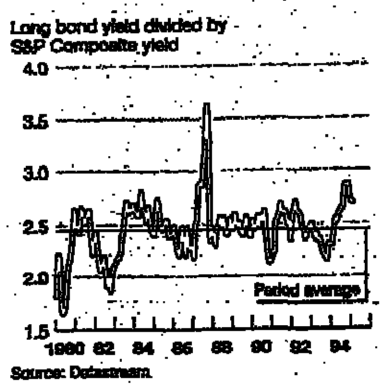
The Barings debacle should be every merchant banker's nightmare. A rogue trader blows the bank's entire capital and reserves by taking huge bets using derivatives. But precisely because this should be every banker's nightmare, Barings' internal controls have been shown to be woefully inadequate. Even the excuse that deception was used to conceal mounting losses is not good enough. Deception is a natural response when trading losses escalate, so controls need to be adequate to guard against it. The most important lesson of the crisis is that controls throughout the industry must be tightened.

Some will also say that derivatives markets need tougher regulation. Certainly, it is frightening how derivatives can multiply losses. In this case, the trader apparently not only gambled heavily on the Nikkei index rising; he added further to the risks by selling put options on the index when he needed cash to pay the "margin call" on his futures contracts as the Nikkei fell. The debacle is an object lesson in the dangers of abusing derivatives. But any move to tighter regulation must be careful not to kill the market: properly used, derivatives can be a valuable way of hedging risks.

One unintended result of the debacle will be further consolidation of the investment banking industry. Even though Barings' capital and reserves have been wiped out, the basic businesses are sound. Baring Asset Management, if valued at 2 per cent of funds under management, would be worth £600m or about the same as the loss Barings was nursing last Friday on its disastrous derivatives play.

US yield ratio

Long bond yield divided by S&P Composite yield



Source: Datastream

US markets

US markets are giving contradictory messages. The bond market is rallying because investors believe the Federal Reserve has done enough on the monetary front, or nearly enough, to curb inflation. Equities are being carried higher on the bond market's coat-tails; investors seem to forget that, if the Fed is successful in slowing down the economy, the prospects for corporate earnings growth will be rather dull. Meanwhile, the dollar is suffering because investors now think short-term interest rates do not have much further to rise while German rates are on the point of taking off. But if the Fed really is succeeding in knocking inflation on the head, that should be good for the dollar. After all, currencies such as the Swiss franc manage to appreciate year in, year out despite low nominal interest rates.

Higher valuations for shares can, of course, be justified if one believes the bond market has further to rally. The boost from a decline in bond yields could more than compensate for the slowdown in earnings growth. Harder to justify are the current relative valuations. The yield on bonds relative to shares is about 15 per cent higher than its long-term average. To justify that, one would have to take the view not merely that the Fed will engineer a soft landing but that the US can enjoy several more years of non-inflationary growth. Those who believe the Fed is in control of inflation would do better to buy US bonds rather than equities. Those who do not would be better to sell the dollar and invest in other equity markets.

UBS

There are two possible conclusions to be deduced from UBS's SFr236m write-down on the SFr1.3bn it spent on its own shares. Either UBS has used some dubious, though legal, tactics to ensure it outvoted BK Vision, its largest shareholder, in last November's proxy battle. Or the bank is pretty poor at picking stocks – between the vote and the year end the shares fell 10 per cent. Neither explanation casts the bank in a brilliant light. If the group did buy shares merely to neutralise them and so ensure its own management won, then shareholders can justifiably wonder whether their interests were enhanced.

The need for the sort of pressure BK Vision brought to bear against UBS is all too apparent from last Friday's results. The meagre 7.5 per cent return on equity is half the rate promised by UBS's chief executive. The bank is pinning its hopes on a recovery in trading profits. It might do better to rely on self-help. Other banks have concluded there are secular rather than cyclical forces undermining long-term profitability. In stark contrast to UBS's apparent paralysis they have responded aggressively by cutting costs and refocusing their businesses.

UBS's shares, valued at about 13 times this year's earnings, are at a substantial premium to those of CS Holding and Swiss Bank Corporation. Unless UBS starts rationalising its cost base and improving its return on capital, that rating cannot be justified.

Rank

Rank's shareholders vote tomorrow on a deal which would improve cash flow, streamline its business and help fund a £1bn capital expenditure programme. Yet there has been considerable opposition to the sale of 40 per cent of its stake in Rank Xerox. Many investors are loath to see Rank sell out of its most successful investment. Nevertheless, as a passive minority investment in a non-core business, it was bound to go.

There are two problems with the deal. First, it crystallises the value of Rank Xerox, and many analysts have been disappointed it was so low. However, there was no likelihood of anyone bidding against the majority shareholder, Xerox. In addition, unexpected tax savings, adding more than £300m to the value of the Rank Xerox stake, make up for any disappointment. Second, there are concerns over where the money will go. And this is hardly surprising, given Rank's estimated 9 per cent return on investment since 1990.

However, Rank can channel a portion of the £620m proceeds into developing out-of-town bingo halls, leisure centres and Hard Rock Cafés, where the returns on investment can be both rapid and substantial. Meanwhile, the economic recovery should start to come through in higher spending on leisure activities, where Rank has a broad spread of businesses. Its shares are trading at a discount to the rest of the leisure sector for 1996 – even when only dividend income from its remaining Xerox stake is included. Given the increased focus on its fast-growing leisure businesses demonstrated by the Xerox sale, the shares should do better.

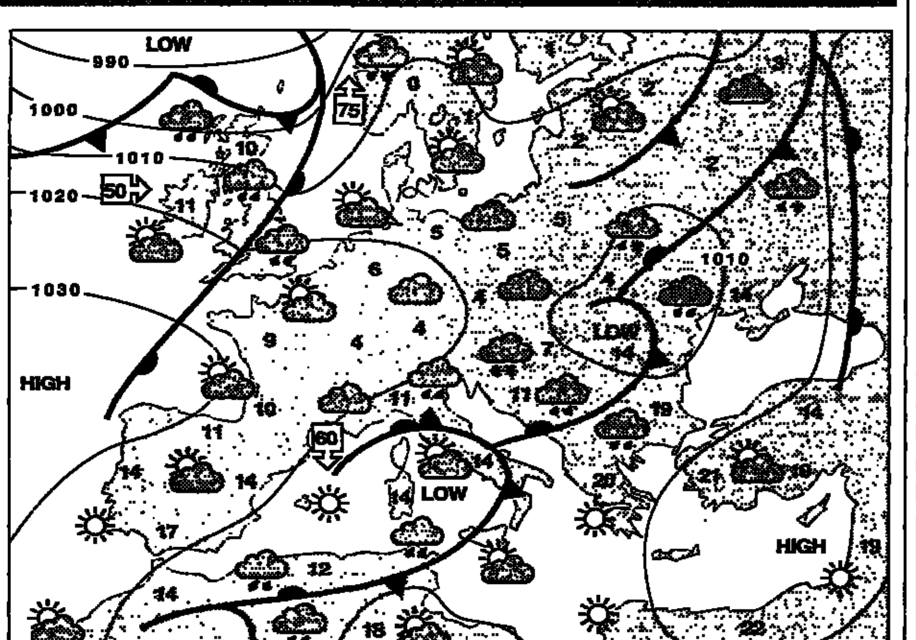
FT WEATHER GUIDE

Europe today

A frontal system from the Atlantic will bring cloud and rain to the UK. Southern Ireland and south-west England will have a little sun during the afternoon. Temperatures will reach 11C in Ireland and Wales. The system will reach western and southern Norway this afternoon causing rain and strong southerly winds. A ridge over France and central Europe will give early morning frost and sunny spells in France, the Low Countries and eastern England. A series of depressions will produce cloud with rain and snow in northern Italy and the southern Alps. Spain will be dry and rather sunny with showers in the far north and in the south.

Five-day forecast

France and central Europe will be sunny and settled until Thursday. Ireland and the UK will have sun alternating with cloud and rain. A depression from North Africa will move north, causing cool and showery weather in Italy, southern France and northern parts of Algeria and Tunisia. Southern France is expected to have strong winds.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	cloudy	1	Caracas	fair	28	Faro	sun	16	Madrid	fair	10	Rangoon	fair	32
	Celsius		Belfast	rain	11	Cardiff	rain	9	Frankfurt	cloudy	5	Majorca	sun	13	Reykjavik	snow	0
Abu Dhabi	fair	24	Belgrade	cloudy	15	Casablanca	shower	13	Geneva	cloudy	5	Malta	shower	20	Rio	sun	31
Accra	cloudy	32	Berlin	cloudy	5	Chicago	rain	8	Gibraltar	shower	15	Manchester	rain	9	Rome	fair	15
Algiers	rain	13	Bermuda	shower	21	Cologne	fair	6	Glasgow	rain	11	Manila	thund	31	S. Frsco	cloudy	16
Amsterdam	fair	8	Bogota	cloudy	22	Dakar	fair	25	Hamburg	fair	6	Melbourne	cloudy	24	Seoul	rain	7
Athens	sun	20	Bombay	sun	32	Dallas	fair	25	Helsinki	fair	1	Mexico City	fair	26	Singapore	shower	30
Atlanta	shower	18	Brussels	fair	7	Delhi	fair	23	Hong Kong	cloudy	18	Miami	fair	26	Stockholm	fair	0
B. Aires	sun	26	Budapest	rain	10	Dubai	sun	25	Honolulu	shower	26	Milan	cloudy	10	Strasbourg	fair	6
B.ham	rain	8	C.hagen	fair	4	Dublin	cloudy	11	Istanbul	sun	17	Montreal	snow	-1	Sydney	cloudy	25
Bangkok	fair	35	Cairo	sun	22	Dubrovnik	rain	17	Jakarta	fair	30	Moscow	cloudy	2	Tangier	shower	14
Barcelona	sun	12	Cape Town	fair	24	Edinburgh	rain	11	Jersey	cloudy	12	Munich	cloudy	4	Tel Aviv	sun	21
									Karachi	sun	28	Nairobi	sun	29	Tokyo	fair	11
									Kuwait	sun	21	Naples	fair	17	Toronto	rain	4
									L. Angeles	shower	18	Nassau	fair	25	Vancouver	fair	10
									Las Palmas	fair	19	New York	rain	7	Venice	rain	9
									Lima	fair	29	Nice	fair	13	Vienna	rain	7
									Lisbon	sun	15	Nicosia	fair	20	Warsaw	cloudy	5
									London	cloudy	7	Oslo	sleet	0	Washington	cloudy	13
									Lux.bourg	fair	5	Paris	fair	8	Wellington	shower	16
									Lyon	cloudy	5	Perth	shower	25	Winnipeg	cloudy	-14
									Madeira	fair	18	Prague	cloudy	4	Zurich	cloudy	3

FINANCIAL TIMES

COMPANIES & MARKETS

Monday February 27 1995

MARKETS THIS WEEK

MARTIN DICKSON: GLOBAL INVESTOR
Last week's signing of the emergency US loan agreement for Mexico and Wall Street's coincidental burst of interest rate euphoria provide a convenient milestone for taking stock of the battered emerging equity markets. Page 20

PETER NORMAN: ECONOMIC NOTEBOOK
One adage that seems to hold true in international economic relations is that it is an ill wind that blows nobody any good. The recent crisis over Mexico could yet yield positive results, offsetting the bitterness it generated between the US and its main industrialised trading partners. Page 20

BONDS:
Investor anxiety over Italy's public finances continues to weigh heavily on its government bond market. While government bond yields have stabilised in most other European markets this year the yield risk premium on Italian bonds has risen to heights not seen for almost two years. Page 22

EQUITIES:
London – The UK stock market will be dominated this morning by the financial crisis at Baring Brothers. Other financial sector stocks will inevitably suffer from their involvement in the derivative markets. New York – This week may be volatile for US stocks, as each item of economic data released could cause investors to reassess their beliefs about monetary policy. Page 23

EMERGING MARKETS:
Turkey – once a favourite of emerging market investors, it became an outcast after a sudden loss of confidence last spring wiped almost 50 per cent off the index as part of a wider financial crisis. Page 21

CURRENCIES:
If events last Friday were a harbinger of things to come, foreign exchanges are set for a busy week. The lira and peseta touched historic lows, the franc, sterling and dollar moved in that direction. Page 21

COMMODITIES:
London's International Petroleum Exchange is to relaunch its gasoline futures contract, amid the doubts of potential users that the revamped product will fit the bill. Page 20

UK COMPANIES:
Wembley, the debt-burdened stadium and greyhound track operator, is today expected to announce a boardroom shake-up as part of its long-awaited £120m refinancing. Page 18

INTERNATIONAL COMPANIES:
Kia Motors, South Korea's second largest carmaker, made a 1994 loss of Won69.6bn due to investment and marketing costs. Page 19

STATISTICS

Nicholas Denton finds there are more jobs now in investment banking than two years ago

Staffing purge obscures banks' steady growth

Investment banking is going through one of its periodic, and bloody, purges of staff. Goldman Sachs, the US investment bank, cut 5 per cent of its staff, decided that was insufficient, and slashed another 10 per cent. The story is the same across the Atlantic. S.G. Warburg, the leading UK investment bank, pulled out of international bonds in January at a cost of 180 jobs.

Seven major investment banks – Goldman, Warburg, CS First Boston, Merrill Lynch, Lehman Brothers, J.P. Morgan and Salomon Brothers are together cutting about 5,600 staff. There is considerable speculation about more to come at Warburg and other houses.

In the flurry of announcements and speculation about job massacres, however, one basic fact has been obscured. Employment in the sector has in fact surged over the past two years, and even the recent redundancies cannot reverse earlier growth.

In the industry as a whole, there are still 14 per cent more jobs than two years ago. Goldman employs 8,100 people worldwide, 850 more than at the beginning of 1993. Employment at Warburg, at 5,900, is 900 above the level of June 1993.

Traditional UK merchant banks such as Robert Fleming and Schroders have expanded smoothly and rapidly. The investment banking operations of commercial banks such as Barclays Bank and NatWest Bank have also grown as the parent companies put more emphasis on securities markets.

The figures tell a story of an industry with endemically volatile fortunes, rather than an industry in terminal decline. In 1993, when most markets surged, investment banks embarked on massive recruitment. "Our industry is notorious for expanding too fast in the good years; it happens every cycle," says a division head at an investment bank which has retrenched.

The biggest investment banks, convinced of the need to be international, have also expanded outside their home markets. Warburg, until its recent troubles, sought to build up its equity distribution arm in the US. Merrill Lynch, J.P. Morgan, Goldman Sachs and Morgan Stanley, in particular, have boosted their presence in Europe.

Now they are purging after their overindulgence. "It's either boom or doom in the investment banking industry," says Mr Rick Sapp, a London-based partner at Goldman Sachs.

Investment banking is exposed to changes in markets. Few were more sudden or unexpected as the decline in bond prices when the Federal Reserve began early last year to raise interest rates. Investment bankers say 1994 was the worst year in the bond market since 1927.

Banks have tried to cut spending on non-essential services. Lehman Brothers, for instance, has cut newspaper subscriptions and some taxi rides for staff. J.P. Morgan's aim is to reduce costs by 10 per cent, but the bank hopes to limit a reduction in headcount to about 6 per cent.

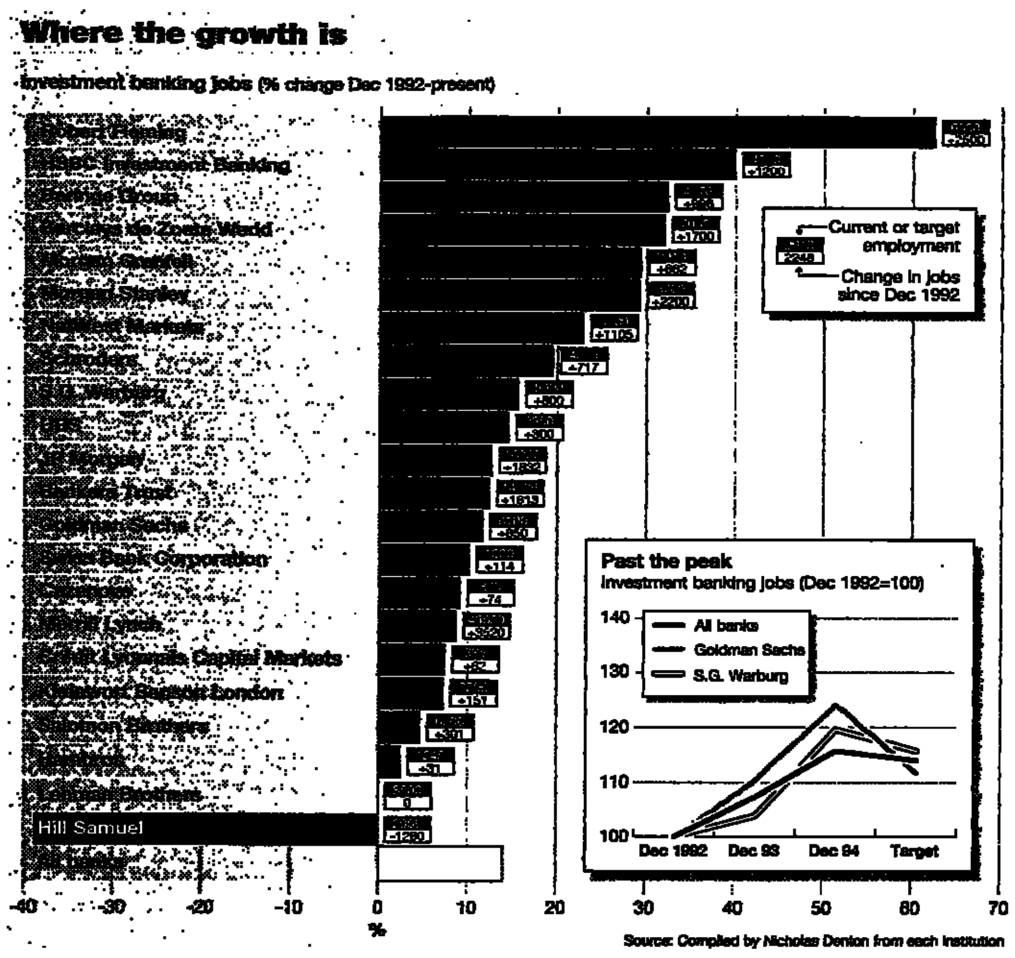
Investment banking is a people business. That means taking on staff when times are good. When markets turn sour, they need to cut salaries and bonuses as well as miscellaneous expenses. Too swingeing a cut in bonuses may prompt talented individuals to move elsewhere. Redundancies are usually inevitable. Much of the volatility of the industry is unavoidable. But some investment bankers say managements can be shortsighted.

Several investment banks claim to have learnt from their mistakes. "We are going back to being more conservative and more prudent," says Mr Sapp of Goldman. But that was not the prevailing attitude in the industry in 1993. One investment banker characterises the mood: "We are going to take over the world and it is just a matter of time. We are going to set up an office where there is a city."

Unnecessary fluctuations in staffing levels can cause serious damage to morale and distract management – Goldman executives say they spent much of December and January implementing redundancies.

But investment bankers are generally stoical about losing their jobs, at least in public. "We are paid danger money," says an employee at one risky investment bank workplace. Most find jobs one or two rungs down in the investment bank pecking order, at commercial banks with securities operations for instance.

And there are compensations for the survivors. One has a philosophy that he admits is "pretty macabre". He says volatility brings with it tremendous opportunities: "Promotion comes fastest when there is a war because people die."



Source: Compiled by Nicholas Denton from each institution

BZ chief foresees resolution of UBS row

By Ian Rodger in Pfäffikon, Switzerland

Mr Martin Ebner, head of the BZ financial group which is contesting the governance of Union Bank of Switzerland, says he believes an amicable resolution of the row between his group and the UBS board is possible.

The legal position has become potentially more complicated, however, after UBS's cancellation of voting rights of two of its shareholders with close associations to the BZ group.

Mr Peter Hafter, a prominent Zurich lawyer and director of BK Vision, the BZ-controlled investment company that is UBS's largest shareholder, has already launched an appeal against the disqualification of his 1,035 UBS registered shares.

Rolex Holding, the luxury watch group, has denounced the cancellation of voting rights on its 1.1m UBS registered shares, but has not said if it would appeal.

UBS claimed the two were part of a BZ concert party. UBS bylaws limit the voting power of any individual or group to 5 per cent of the registered shares, a ceiling achieved by BZ's holdings.

Mr Ebner, speaking on Friday after the annual meeting of BK Vision, said the cancellations provided grounds to challenge the validity of any decisions taken at UBS's forthcoming annual shareholders' meeting in April.

Mr Ebner said BK Vision, which last year proposed reducing the UBS board membership from 23 to nine, would probably not forward any motions this year.

He described the board's proposal to reduce its membership by three this year as "an insult", but welcomed signs that the bank was becoming more sensitive to shareholder interests.

He said there were communications between BZ and the UBS board in spite of the legal actions and more UBS board members were becoming sympathetic to BZ's cause. He disagreed with the view of Mr Robert Studer, UBS chief executive, who said on Friday that the legal battles could go on for three to five years.

He also challenged Mr Studer's assertion that the contested decision of a shareholders' meeting in November to convert registered shares into bearers could not be reversed.

Retailer Pentos in last-ditch rescue talks

By Patrick Harverson in London

Pentos, the troubled UK retailer, will meet two venture capital companies today in a last-ditch attempt to secure extra financing and dissuade its bankers from calling in the receivers.

Schroder Ventures and Electra Investment Trust entered the picture last week after it became apparent that Pentos' bankers, led by Barclays and Midland, were unwilling to commit extra funds to the retailer and were considering calling in receivers.

Pentos' existing £50m ($80m) debt facility is due to expire tomorrow, and while the banks are believed to be prepared to roll over the credit, they are reluctant to meet Pentos' demands for an additional £20m in financing which the retailer says it needs to continue trading.

The tough line adopted by the banks has surprised Mr Bill McGrath, Pentos' chief executive, who until last week was confident that the banks would support the retailer's struggle to avoid receivership. Yesterday, a source close to Pentos said Mr McGrath was saddened by the banks' sudden and "irrational" change of heart.

Pentos needs the extra money to meet the cost of its borrowings, which are expected to rise from £50m to £60m-£70m by the end of the March because of the need to pay suppliers and quarterly rent bills. The group put Athena, its cards and posters retailing subsidiary, into receivership just after Christmas.

Yesterday, the two companies were reported to be examining the retailer's books and the recent business plan drawn up by Mr McGrath. A deal with a venture capital company would appear to offer the best chance of survival. A rights issue is out of the question, because Pentos raised £45m only last March through a cash call at 25p which was intended to put its finances on a secure footing. The shares have since dropped to 8p.

An attempt to raise funds through the disposal of parts of the group has failed. Last month the management said it was seeking buyers for Pentos Office Furniture and the Rymans chain, but it has yet to attract serious interest in Rymans at the hoped-for price of £15m. Several groups have expressed interest in buying Dillons, the bookstore chain. Since it accounts for almost 80 per cent of group turnover, its sale would effectively mark the end of Pentos.

This week: Company news

BRITISH AEROSPACE

Few surprises but exceptional items complicate picture

The headline figures of British Aerospace's annual results, due on Thursday, will come as little surprise to the stock market.

BAe revealed the main numbers when it announced a joint venture in regional aircraft with the Franco-Italian group ATR last month.

The company's pre-tax, pre-exceptional provisions profit is likely to be £185m ($294.1m) for the year to December 31, up from £71m a year earlier.

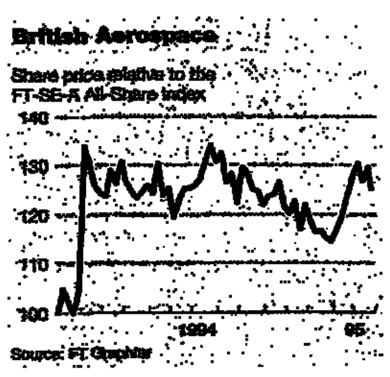
BAe is also likely to pay a 10p (8.3p) total dividend. It has seen a large cash inflow of about £540m for the year, following the sale of Rover cars and a rights issue.

Operational cash flow is expected by analysts to have been broadly neutral.

Exceptional items do complicate the picture, however.

The exceptional profit on the sale of Rover was £299m, which is reduced by provisions on the early repayment of debt, adjustment to the provision on the value of leases on civil aircraft, and the largest item, a £215m provision against the rationalisation of the company's regional turbo-prop operations.

The net exceptional loss is expected to be about £20m, giving a final pre-tax profit of £165m.



Source: FT Graphite

OTHER COMPANIES

■ **HSBC Holdings:** The UK-based international banking group, which reports its results for 1994 today , is expected to have made pre-tax profits of about £2.9bn ($4.6m), compared with £2.58bn in 1993.

The bank, which is the parent of Midland Bank of the UK is expected to have suffered from poor dealing income in treasury and capital markets operations in London. Shares suffered last year from its exposure to volatile dealing income.

■ **Abbey National:** The home loans and banking group will on Thursday announce its 1994 results. Analysts expect the former building society, which became a bank in 1989, to produce pre-tax profits in the range of £860m ($1.4bn) to £920m, compared with £704m for 1993. The total dividend is expected to rise to 16.8p-17.3p, from 14p.

■ **General Accident/Sun Alliance:** The two composite insurers will this week underline the revival in insurers' profits. General Accident is expected to post pre-tax profits on Tuesday of about £430m ($683.7m), against £295m. Sun Alliance has said it will take a £100m provision to bring forward projected losses from mortgage indemnity policies. Thursday's profit figures are forecast to reach £300m, against £222m. Analysts will focus on dividend policy as a guide to the groups' confidence about the trading outlook, with many premium rates under downward pressure.

■ **George Wimpey:** After optimism about the UK housing market a year ago, the slowdown in housebuilding activity in the latter half of 1994 will take some of the shine off the builder's annual results, due on Thursday. The strong first half should still sustain a solid improvement in pre-tax profits: analysts are looking for £40m-£45m ($63.6m-$71.5m), up from £25.5m.

■ **Zeneca:** The pharmaceuticals and bioscience company, is expected to deliver on Thursday 1994 pre-tax profits of at least £750m ($1.2bn), excluding £100m of exceptional restructuring costs and profits on disposals.

■ **Credit Suisse**, the flagship bank of the CS Holding financial services group, has been quiet about its 1994 results in recent weeks. But after Union Bank of Switzerland revealed a disappointing 29 per cent drop in net income last Friday and Swiss Bank Corporation warned twice that its results would be unsatisfactory, expectations are muted.

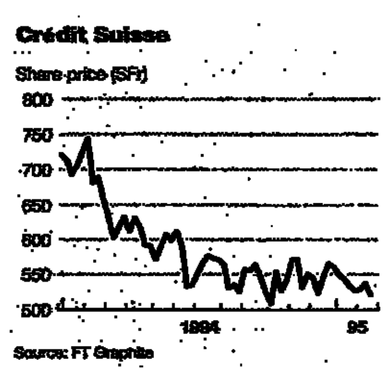
■ **Lasmo**, the independent oil company which beat off a hostile bid from Enterprise last year, reports full-year figures on Wednesday. Forecasts range from a profit of £4m ($6.4m) to a loss of £24m. Analysts are likely to focus on Lasmo's success in reducing discovery costs and adding to reserves.

■ **Associated British Ports:** The growth in exports should result in a sharp improvement in profits from the UK's largest ports group, when it reports on Wednesday. Analysts are predicting a 26 per cent increase in pre-tax profits to £78m (£62.1m).

■ **BICC:** Pre-tax profits at the cables and construction group should climb from £104m to about £130m ($206.7m) following rising demand for cables, particularly in North America.

But forecast earnings per share of 19p would fall short of last year's 19.25p dividend, forcing the company to rely on reserves to maintain an unchanged pay-out.

■ **WPP:** The marketing services company is expected on Tuesday to announce a strong increase in pre-tax profits –from £84m to £91m ($144.7m), against £54.4m in 1993. Most expect an increase in dividend to bring the total up to about 1.3p, against 1p.



Source: FT Graphite

■ **Canada's four biggest banks** are likely to report substantially higher first-quarter earnings this week, due largely to falling loan-loss provisions. Bank of Nova Scotia and Bank of Montreal will announce earnings for the three months to January 31 on Tuesday, Royal Bank of Canada and Canadian Imperial Bank of Commerce on Thursday.

■ **IRI:** The Italian state holding company is to conclude exclusive talks with Riva, the private steelmaker, on Tuesday, on the sale of Ilva Laminati Piani, the state-owned flat steel producer. IRI has been trying to persuade Riva to increase its original offer for ILP and has commissioned a new valuation of the steel company. If the Riva talks break down, negotiations will be reopened with other potential buyers.

Companies in this issue

Wolfson to step down to ease Wembley cash call

By Tim Burt

Wembley, the debt-burdened stadium and greyhound track operator, is today expected to announce a boardroom shake-up as part of its long-awaited £120m refinancing.

Sir Brian Wolfson, the group's veteran chairman, has agreed to stand down after being warned by Charterhouse Bank, Wembley's financial advisers, that management changes were vital if it was to convince City institutions to back a £60m rescue rights issue and £40m debt-for-equity swap.

He is expected to be replaced by Mr Claes Hultman, the Swedish chief executive of Eurotherm, the UK process-control equipment company.

The move follows an eight-month bid by Sir Brian to put together a go-it-alone reconstruction of Wembley, despite rival refinancing offers from three outside groups.

Those efforts were hampered by the widespread feeling among institutional investors that Sir Brian was responsible for the debt-financed acquisition strategy which left the company struggling with borrowings of £140m just as the recession led to losses by some parts of the business.

Mr Hultman, whose appointment depends on the company pushing through its reconstruction proposals, revealed yesterday he had first been approached by Charterhouse last year with the offer of becoming a non-executive director.

"I was not interested in it. But they came back with a better offer.

"It's a marvellous opportunity and I'm sure there are major possibilities for improved performance by Wembley." Although his appointment is likely to be welcomed by investors, it emerged that he would work only two days a month at Wembley while Sir Brian retained considerable influence as full-time deputy chairman.

Mr Hultman, who is to remain chief executive at Eurotherm, admitted the same management team would operate the company but added that Mr Alan Coppin, managing director, "will report to me and no-one else". Mr Coppin is also expected to be named chief executive.

The Wembley board will meet this week to approve the reorganisation.

It will also consider the pricing of the rescue rights issue, which is likely to be at a discount to Friday's 5.5p closing share price.

TI plays down reports of $20m lawsuit against subsidiary

By Tim Burt

TI Group, the specialist engineering and aerospace company, has played down reports that it is facing a $20m (£12.5m) lawsuit over alleged overpricing on component orders for the US Air Force.

The company said it had not received any formal notification of legal action against Dowty Woodville Polymer, the US subsidiary which supplies seals for swing-wing aircraft.

The case is thought to involve an alleged "whistle-blower", in which claims of overcharging by a former company employee can be taken up by the US government.

"TI's policy is to price on a fair and competitive basis," said Mr Tony Sumner, public affairs director. Dowty Woodville Polymer continues to supply the US Department of Defense and recently won a new contract for the USAF.

The subsidiary's sales were about £17m last year.

The shares closed 6p down at 328p on Friday.

Bock takes legal action over claims he hid deal connections

By David Wighton

Mr Dieter Bock, chief executive of Lonrho, has started legal action against the German news magazine Focus and the Mail on Sunday over articles which claimed he had an undeclared personal interest in a deal Lonrho did in 1993.

The articles also alleged that Bock's complex web of private companies was less financially secure than previously assumed.

Mr Tiny Rowland, who is being forced off the board by Mr Bock, yesterday called on him to provide details of his private finances saying that the allegations were "very worrying for shareholders".

"We want to know who Mr Bock is, what assets he has and what he hasn't."

Lonrho accused Mr Rowland of being behind the disclosures. "It is apparent to the company that this is mischief-making by Tiny Rowland."

Mr Rowland denied that he had been involved with the Focus article though he admitted meeting the author during an unrelated trip to Munich.

Focus alleged that Mr Bock had an interest in Lonrho's sale of 4,300 German flats for £160m in March 1993 which he did not disclose.

It claimed that the flats were bought jointly by Mr Klaus Hahn and ConCret, a subsidiary of Mr Bock's German master company Advanta Management.

Mr Rowland said that Mr Bock, who had just been appointed joint chief executive, took over the negotiations of the deal having asked for a "free hand".

Lonrho replied that the deal was virtually completed when Mr Bock became involved. It said he allowed ConCret to be used as a nominee company, as required under German law, for which it did not receive any payment. "Mr Bock never had any interest in the properties and everyone was kept informed, including the auditors," the company said.

Mr Rowland said he was writing to Sir John Leahy, Lonrho's chairman, expressing his concern over the lack of "transparency" of Mr Bock's interests.

He pointed to the claim in the Focus article that Laerstate BV, the company through which Mr Bock acquired his £135m stake in Lonrho, has disclosed assets of just £4,000. The holding was financed largely by a loan from BfG Bank.

Mr Rowland said he hoped that Mr Bock would pursue his legal actions against Focus and the Mail on Sunday. "I hope that it will all come out in court."

Mr Rowland is due to leave the board after next month's annual meeting.

A growing tide of discontent

Neil Buckley on the increasing pressure for a restructuring at Signet

The resignations last week of two senior executives at Signet, the jewellery group formerly known as Ratners, are expected to increase pressure on the company for a financial reconstruction to ease its over-stretched balance sheet.

While Signet's trading performance has been turned around in the past three years by new management, headed by Mr James McAdam as chairman, it still has debts of £380m. It also owes preference shareholders more than £90m in unpaid dividends – an amount ratcheting up by £30m a year.

Signet insisted that the announcement on Thursday of the departure of both Mr Gary O'Brien, finance director, and Mr Nathan Light, head of Sterling, its US chain, was coincidental. There was no suggestion of a boardroom split with Mr McAdam over restructuring.

It said Mr O'Brien, after three years of hard work with Signet, was attracted by an operational management role with Salisburys, the luggage and handbag chain which Signet sold to Mr Stephen Hinchliffe, the entrepreneur, for £3.2m last August.

No official reason was given for Mr Light's departure, but observers believe he fell out with Mr McAdam over strategy and cost control.

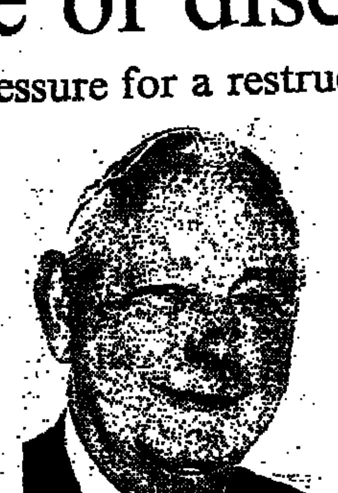
However, as one preference shareholder put it: "The departures leave Mr McAdam looking extremely isolated."

Shareholders such as MD Sass of the US and the UK Active Value Fund, which holds 24.5 per cent of the sterling denominated preference shares, have been pressing Mr McAdam for a restructuring since last year.

They have threatened to call extraordinary meetings to discuss a possible break-up of the group, and are now expected to take advantage of the boardroom upheavals to press home their case, as Signet prepares to renegotiate its banking facilities in June.

Mr McAdam says he will put in place a restructuring only when he feels it is in the interest of all shareholders, not just the preference holders. To some extent, his reluctance to restructure the balance sheet, for example through a debt-for-equity swap – leading to dilution for ordinary shareholders – or to sell off part of the business, is understandable.

He has worked hard to turn the group around. From losses of more than £100m three years ago, Signet is forecast to make a profit this year of between £7m and £10m, even after final trading losses of £5m from Salisburys, and the carrying cost of 60 empty former Ratners stores.



James McAdam: will not be hurried into a restructuring

Gross margins have been rebuilt and Mr McAdam has rationalised the group, selling both the Watches of Switzerland and Salisburys chains, and focusing on the Ernest Jones and H Samuel chains in the UK.

The Ratners name, which became a liability after former chairman Mr Gerald Ratner's infamous remark that some of his products were "crap", has been removed from the title of the group, and from the high streets.

Nevertheless, preference shareholders insist the company cannot trade out of its debts, and want it to sell either its UK shops or Sterling business. Both could realise significant value.

Sterling, whose 900 stores made an operating profit of £40m last year, is reckoned by analysts to be worth up to £600m.

There were rumours last week that Mr Light, who enjoyed a difficult relationship with Mr McAdam, was keen to buy back Sterling from Signet. After leaving Signet with a pay-out thought to total £750,000, some observers believe he may now launch a bid.

In the UK, Signet's smaller rival Goldsmiths group, headed by Mr Jurek Piasecki, had an earlier offer of £60m for Ernest Jones rebuffed, and is now rumoured to be interested in buying both Ernest Jones and H Samuel for £250m.

Signet says Mr McAdam, a redoubtable Scot, will not be hurried.

"Jim could prolong a financial reconstruction for some time," said one company insider. "He does not necessarily see this June as a deadline."

NEWS DIGEST

Ardagh rises 15.5% to I£2.58m

Ardagh, the Dublin-based glass manufacturer, said improved market conditions lay behind a 15.5 per cent upturn in interim profits.

The pre-tax increase for the six months to December 27, from I£2.24m to I£2.58m (£2.56m), was struck on turnover barely changed at I£17.7m and after interest receivable of I£337,000 (I£242,000).

Mr Peter Murray, chairman, described the performance as "very satisfactory". The rebuild of its second furnace and installation of a new cullet preheating system should produce "significant energy savings," he said.

The interim dividend is raised to 0.95p (0.76p), payable from earnings of 6.57p (5.79p) per share.

Goodwin tumbles

Goodwin, the mechanical and refractory engineer, blamed cost overruns on two antenna contracts for a steep contraction in interim profits.

Although most group companies performed well, with overall turnover for the six months to October 31 up from £6.82m to £7.94m, pre-tax profits dropped to £60,274 (£180,237) following problems with contracts for the air traffic control market and for coastal shipping surveillance in extreme weather conditions.

The group said that the overruns would extend into the second half, but should not recur after that.

Earnings per share were 0.56p (1.68p).

Waterhouse loss

Full year pre-tax losses at Waterhouse Group, the USM-quoted office fittings company, more than trebled from £74,543 to £261,056. The result was after a £57,000 profit from a disposal.

Turnover for the year to September 30 fell to £1.24m (£2.79m), of which £725,000 (£1.83m) was from discontinued operations.

The patented Fineline partitioning system had not generated the expected sales. However, the managed fit-out service was attracting more interest, and increased bank and management support should lead to "an improvement" in this area.

Losses per share emerged at 10.4p (2.9p). The company has not paid a dividend since 1990.

BB & EA in the red

British Building and Engineering Appliances, the building-related equipment and services group, reported a pre-tax loss of £522,000, against a £902,000 profit, at the interim stage, following restructuring and the closure of its GV Williams stonemasonry business.

The company put the total cost of the exceptional losses at £1.67m. Turnover for the six months to December 31 was up by 12 per cent to £26.8m (£23.9m).

Losses per share were 3.4p (earnings 5.4p). The interim dividend is held at 2.5p.

Skipton 66% ahead

Reduced provisions for bad and doubtful debts helped Skipton Building Society to a 66 per cent advance in pre-tax profits for 1994.

The pre-tax figure for the group rose from £10.5m to £17.4m as the provision was cut from £33.5m to £23.8m. Repossessions were down 23 per cent.

Total assets remained static at £2.91bn and the solvency ratio increased to 12.17 per cent (10.57 per cent).

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Eridania Beghin-Say (France)	American Maize Products (US)	Food	£267m	Board agrees improved bid
Noranda Forest (Canada)	Cross Pointe Paper (US)	Paper	£131m	Pentair non-core disposal
Coats Viyella (UK)	Bace Manufacturing (US)	Engineering	£65m	Expanding Dynacast arm
ABC & John Fairfax (Australia)/Cox Communications (US)	Australian Information Media (JV)	Broadcasting	£48m	Pay TV venture
Independent Newspapers (Ireland)	Argus Newspapers (S Africa)	Publishing	£44.8m	Stake increase plans
NatWest Markets (UK)/ HDFC (India)	HDFC Bank (JV)	Banking	£41m	NatWest stake 20%
United Newspapers (UK)	Headway Trade Fairs (HK)	Marketing services	£11.4m	Continues E Asia growth
Chemring (UK)	Ronstan (Australia)	Sailing supplies	£4.7m	Expanding marine operations
SmithKline Beecham (UK/US)	Prescription Delivery Systems (US)	Pharmaceuticals	n/a	Prescription drugs move
Hollinger (Canada)	The Telegraph (UK)	Publishing	n/a	Buy-out/Fold-in plans

Higher spending and costs put Kia Motors in the red

By John Burton in Seoul

Kia Motors, South Korea's second largest manufacturer of motor vehicles, recorded a 1994 loss of Won69.6bn ($88.5m) as a result of increased investment and marketing costs. It was the company's first deficit since 1980.

The loss occurred in spite of a 15 per cent increase in sales to Won4,730bn, which exceeded the Korean car industry's total sales growth of 10.6 per cent last year. The company posted a Won18.6bn net profit in 1993.

Kia's operating profits fell by 26 per cent to Won118bn as sales expenses rose by 30 per cent to Won550bn, reflecting Kia's marketing expansion in the US and western Europe.

Financial costs, associated with building industrial facilities, depressed net profits.

Kia is expanding its manufacturing facilities at the company's Asan complex to achieve total annual production of 1m vehicles by the end of this year. It produced 620,000 cars in 1994.

The company has also been spending heavily on the development of a new semi-compact model, the G-Car, which will be introduced this year and is expected to compete against Hyundai Motor's Sonata II, Korea's best-selling car.

Asia Motor, Kia's truck subsidiary, reported net profits down 13 per cent to Won7.1bn, although sales increased by 32 per cent to Won1,353bn.

A government-imposed limit on car price increases, introduced seven years ago as part of an anti-inflationary policy, is also contributing to poor earnings performance.

Analysts estimate that Daewoo Motor, the country's third-biggest car company, will report a loss of Won30bn to Won40bn, less than half of its 1993 deficit of Won84.7bn.

Ssangyong Motors is expected to record a loss of Won70bn for 1994 against a deficit of Won62.1bn in 1993.

The only exception to the losses reported by Korean carmakers is Hyundai Motor, the country's largest car company. It recently said 1994 net profits grew by 134 per cent to Won136.7bn.

Disposals help Vard return to profits

By Karen Fossli in Oslo

Vard, the troubled Norwegian cruise group, returned to profit in 1994, helped by significant gains from asset disposal. Its Miami-based Kloster Cruise subsidiary, however, plunged deeper into losses.

Group pre-tax profits reached NKr391.86m ($60m) in 1994, against losses of NKr213.56m in the previous year, as operating revenue fell to NKr6.4bn from NKr7.3bn.

Kloster Cruise (KCL) extended 1994 losses to $27.7m from $20.5m the previous year. The result was $2.5m weaker than a forecast issued by the group in January, when it unveiled a $62m debt refinancing package for the holding company.

KCL saw 1994 contributions from cruise ship operations decline to $273.9m from $295.4m in 1993.

Group operating profit fell to NKr469.67m from NKr608.96m but net financial charges fell to NKr729.84m from NKr882.55m, helped by a NKr104.94m gain on ship sales.

Vard sold the ferry business, disposed of one of three cruise divisions and sold three cruise ships during the year. Another cruise ship was sold last month and, in total, gains of $17m were booked by KCL.

Interest income rose to NKr17.2m from NKr6.10m. The group made realised foreign exchange gains of NKr47.99m, against losses of NKr125.53m.

TWA says it has enough cash to survive the winter

By Richard Tomkins in New York

Trans World Airlines, the US airline which has been on the verge of a financial crisis, said late on Friday that it believes it can survive the lean winter period without running out of cash.

The company said that its cash balances had dwindled from $124.9m at the end of December to $100.9m at the end of January, but usually turned cash-positive during March. "So we contemplate no shortfall for the remainder of the winter," it said.

The airline also produced preliminary results for the year to end-December, reporting that operating losses had fallen slightly from $143.9m the year before to $137.4m.

However, it said the latest figure excluded non-recurring charges of $119.7m relating to a reduction in the valuation of its international routes, the capitalisation of interest on future aircraft deliveries, severance payments, and other items.

TWA was speaking as it prepared to file a fresh revision of a planned restructuring which it hopes will save it from filing for bankruptcy protection under Chapter 11 of the US bankruptcy code.

Last October the airline announced a proposal to halve its debt by asking creditors to swap $800m worth of loans for equity.

However, holders of its 10 per cent loan notes claimed they would be better off if the airline went into bankruptcy because their collateral was worth more than the deal they were being offered.

The note-holders rejected several improvements to the terms. Then, at the end of January, TWA said that it had reached an agreement with the dissidents by offering them a mix of equity and $170m worth of 12 per cent loan notes.

The note-holders initially accepted the proposal, but TWA warned that they had put in a last-minute bid for better terms towards the end of last week, and that the fresh restructuring plan did not take account of this bid.

Bidders for SPT meet officials this week

By Vincent Boland in Prague

Representatives of the five groups that have submitted preliminary bids for a stake in SPT Telecom, the Czech Republic's state-owned telephone company, are due to meet government officials this week to "sell" their bids.

The stake in SPT could be worth about $1bn, and is expected to be the biggest telecoms sale to date in eastern Europe.

The five groups lodged their opening bids for the 27 per cent stake in SPT by the deadline last Friday, when the first round of the fiercely competitive tender closed.

The individual meetings are likely to concentrate on how the bidders intend to meet the stiff development targets the government is demanding of SPT's new partner.

The bidders are Stet International of Italy, TeleDanmark, CeTel, a consortium of Deutsche Telekom and Ameritech, TelSource, a consortium of PTT Telecom Netherlands and Swiss Telecom that includes AT&T of the US in a marginal role, and Telfar, a consortium of France Télécom and Bell Atlantic.

The economy ministry, which is advised by J. P. Morgan, said in a statement on Friday that it would evaluate the bids over the next four weeks. A second round of bidding is then expected to be held, and a winner may be announced by the end of May.

Comalco unit IPO to go ahead

By Kenneth Gooding, Mining Correspondent

Comalco, the Australian aluminium producer controlled by CRA, is pressing ahead with the flotation in the US of its Commonwealth Aluminium Corporation subsidiary in spite of the uncertain state of the new issues market. The terms value CAC at between US$190m and $210m.

This is at least 11 per cent below the $237.5m Comalco indicated it expected to receive when it announced in December it might sell its subsidiary.

The initial public offering consists of 10m CAC shares priced between $19 and $21 each. In December Comalco indicated it hoped to receive about $23.75 a share. Merrill Lynch is the lead broker. After the sale, Comalco will hold no shares in the US company.

CAC operates North America's largest multi-purpose aluminium rolling mill in Louisville, Kentucky. Comalco acquired the operations from Martin Marietta, the defence group, nearly 10 years ago. Since 1990, output has risen from 333m lbs to 569m lbs last year and will go up again to 720m lbs by 1997.

The coming 27 per cent increase in output will be achieved by removing bottlenecks at a cost of $50m, but the extra 150m lbs will add $20m to 1997 profit. The prospectus circulated to institutional investors in North America and Europe shows CAC's aluminium conversion costs have fallen from 36 cents a lb in 1989 to 22.5 cents last year.

CAC's earnings in 1994 were $14.1m, or $1.41 a share, compared with a small loss in 1993, and the company suggests earnings should rise by 50 per cent in 1995.

It will start independence with $50m of debt unless over-subscription allows further shares to be issued, , the proceeds of which would be retained by CAC to take its debt down to $21.6m.

FedEx plans service to China

By Richard Tomkins

Federal Express looks likely to become the first US express delivery company to provide a direct service to and from China after agreeing to buy a route between the US and the republic from Evergreen International Airlines, a US air cargo company.

Evergreen is the only US carrier with the rights to fly a scheduled cargo service to and from China. FedEx has agreed to buy its route authority for an undisclosed sum.

The deal is subject to US Department of Transportation approval. If it goes through, FedEx will be able to start flying four round trips a week between the US and Shanghai with a stop-over at Beijing.

Until now it has been able to serve China only by using the services of other carriers – for example, sending goods in the baggage compartment of passenger airlines or transferring goods to local carriers in Tokyo or Hong Kong.

Mr Frederick Smith, FedEx's chairman, said the deal would speed up deliveries between the US and China by up to three days.

Evergreen International Airlines is part of the Oregon-based Evergreen International Aviation, a loss-making aircraft leasing and air cargo group which has been trying to arrange a financial restructuring.

Evergreen has been flying twice-weekly round trips from New York's JFK International airport to China, and recently won approval to increase the frequency to four round trips per week.

FedEx is likely to serve China from its hub at Anchorage rather than JFK. Mr Smith said he hoped to increase the service frequency to six times a week and to add Guangzhou as a destination, but this would depend on the outcome of bilateral aviation talks between the US and China due to begin this week.

Higher than expected loss at PWA

By Robert Gibbens in Montreal

PWA, the parent of Canadian Airlines International, posted a higher than expected 1994 loss but said cost-cutting and improved fleet management would return it to profit in 1995.

PWA said 1994 results were hurt by the lower Canadian dollar's impact on fuel and other costs, a strike at a regional subsidiary and temporary grounding of its ATR fleet at the end of the year.

The 1994 loss was C$37.8m (US$27.1m) or 5 cents a share, compared with a loss of C$292m, or C$6.13, including restructuring charges, in 1993. Operating income was C$70.9m – the first positive figure since 1988. More shares were outstanding in 1994 because of a financial restructuring.

Operating revenues were C$2.95bn in 1994, up 7.2 per cent from 1993 with strong traffic gains and higher yields on domestic and international routes. Operating expenses rose 2.2 per cent.

Uralita forecasts return to the black this year

By Tom Burns in Madrid

Uralita, the recession-hit Spanish industrial group that received key backing from UK institutions two years ago, will return to profitablity this year, said chairman Mr Juan Antonio García Díez.

The turnround at the group, which has consolidated its position as the leading domestic building materials manufacturer, will be the focus of presentations by Uralita in London and in Edinburgh starting today.

UK institutions, led by Scottish Widows, replaced Grupo March, Spain's biggest family-controlled holding company, as Uralita's core shareholders in 1993 in what was then an innovative market placement.

Mr García Díez said the group faced "an excellent financial situation". Losses in 1994, after tax and minorities, had been reduced to Pta700m ($4.6m) from Pta7.4bn in 1993 and profits were likely to total Pta5.5bn this year.

Uralita's recovery has been aided by the group's successful disposal of 50 per cent of Aragonesas, its chemical division, through a competitively-priced flotation that raised Pta11bn on the Madrid Bolsa this month. Some 13m of the 20m Aragonesas shares placed on the market were acquired by institutions and the share offer was strongly oversubscribed.

The high liquidity achieved with the disposal has allowed Uralita to reduce the face value of its shares from Pta500 to Pta440 and pay Pta60 a share to its shareholders. The Pta3.1bn which will be paid out to shareholders – the first dividend delivered by the group since 1991 – represents 28.5 per cent of the funds received from the Aragonesas placement.

Mr García Díez said Uralita would pay out a minimum of 35 per cent of its net results to shareholders. He added that the group would raise its investment in 1995 to Pta8bn from Pta5bn last year and it was likely to site a new construction materials plant in the European Union, its first outside Spain and Portugal, later this year.

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Martin Dickson

Mexico, Barings and emerging markets

Last week's signing of the emergency US loan agreement for Mexico, Wall Street's coincidental burst of interest rate euphoria, and the weekend crisis at Barings together prompt some interesting questions about the battered emerging equity markets.

Some analysts have begun suggesting tentatively that the emerging markets have fallen so far out of favour since the US Federal Reserve began tightening monetary policy a year ago, and since Mexico's December devaluation, that they may now offer some interesting valuations to the canny contrarian investor.

Few investors, however, are likely to plunge into emerging markets in the immediate wake of the crisis at Barings. Provided the Bank of England puts together a convincing rescue package, European and US equity markets may weather the storm reasonably well.

But Barings' problems are likely to prompt another flight to quality, away from more speculative assets, and emerging markets seem bound to suffer. How ironic, then, that emerging markets should be one of Baring Securities' main areas of analytical expertise.

The long-term bull case for emerging equity markets remains intact, despite the Mexican alarums: the countries concerned are expected to show markedly higher growth rates than the developed world over the next 20 years and international investors, seeking high returns and diversified portfolios, will remain significant net investors over the long term.

But it is questionable whether emerging markets will get much of a boost from the all important US investment community this year, particularly in the first half.

US balance of payments data shows that America's love affair with international securities – in both mature and developing economies – was diminishing long before the Mexican crisis hit, due in no small measure to the liquidity squeeze applied a year ago by Mr Alan Greenspan, the Federal Reserve chairman, when he began to tighten monetary policy.

US purchases of foreign securities fell steadily during the first three quarters of 1994 and for the year as a whole may have only totalled about £50bn, compared to $119bn in 1993 and £45bn in 1991. Anecdotal evidence, and data from the mutual fund industry, suggest the trend has continued since the peso devaluation.

The bull case was put recently by Mr Michael Howell, an analyst at Barings, who has developed his own forecasting model based on flows of funds and estimates that there should be a net influx of some $25bn of foreign capital to emerging market equities in 1995.

Central to Mr Howell's argument is a belief that US interest rates have probably peaked and that all emerging markets typically gain from rising US dollar liquidity.

But he adds that "integrated markets" – those that are influenced mainly by the business cycle – show a clear rotational pattern at times of increasing dollar liquidity: early in the cycle the highly interest rate sensitive markets of south-east Asia and Argentina outperform.

Mr Greenspan's congressional testimony last week, suggesting that US economic growth is slowing to a more sustainable rate, has certainly been pounced on by Wall Street as indicating that the interest rate cycle is at, or near, its peak, with the Treasury bond market rallying strongly and the Dow Jones Industrial Average moving through 4,000 for the first time.

But recent US economic statistics are sufficiently ambiguous to suggest the market's euphoria may be premature, risking a sharp negative turn in sentiment if rates rise again, hitting US domestic and international stocks alike. And even if the peak of the cycle is here, it could take many months for increased liquidity to be reflected in securities sales.

On top of that, investor jitters in the wake of Barings own difficulties suggest there is likely to be little enthusiasm for emerging markets for much of this year, and no justification for an early move to increase their overall weighting in a global portfolio.

However, within an emerging markets portfolio, there are strong grounds for a shift of weightings, buying into favoured markets on weakness.

The Mexican crisis has clearly had a strongly negative impact on Latin American markets in general and, to a much lesser extent, on emerging countries running large current account deficits, such as Argentina, Malaysia and Thailand.

Mexican equities will remain an extremely speculative investment until the government's economic programme and political strength, are more clearly established. Argentina, despite the best efforts of its government, faces no small battle to restore investor confidence. Within the Latin sphere, that argues for an increased weighting to Brazil, with its solid economic reform programme, and Chile.

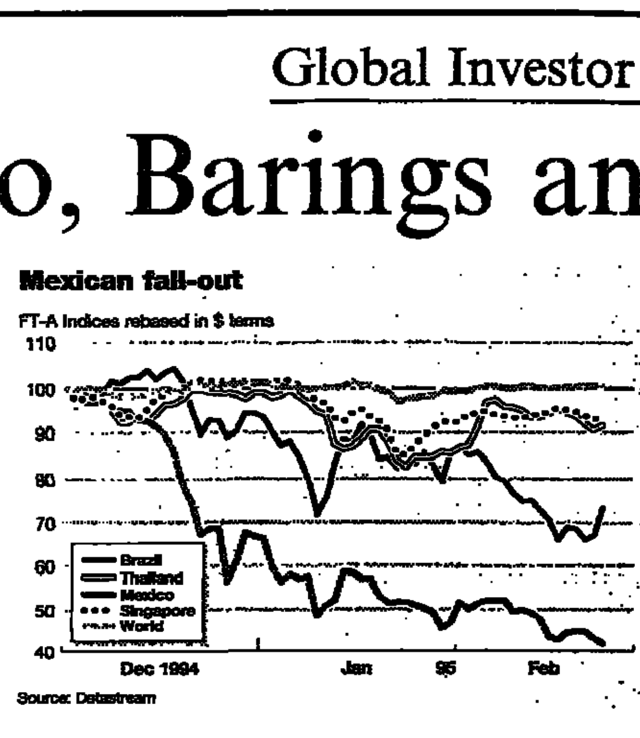
Parallels between Mexico and south-east Asian nations with big current account deficits look overdone, given the Tigers' much higher GDP growth and domestic savings ratios, as well as lower inflation. Despite a mid-January run on some south-east Asian currencies, the region's equity markets have held up reasonably well since the peso devalued.

They are hardly cheap – with Malaysia and Thailand's prospective p/es in the mid teens. Still, one crude measure of valuation – the ratio between a stock market's p/e multiple and that country's compounded five-year economic growth rate – suggests the cheapest emerging markets include Hong Kong (weighed down by China worries), South Korea (overheating), Thailand, Malaysia and Singapore.

But in the immediate wake of the Barings crisis, only the very brave will show much enthusiasm for these markets.

Mexican fall-out

FT-A Indices rebased in $ terms



Source: Datastream

Total return in local currency to 23/2/95

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.12	0.04	0.09	0.10	0.18	0.12
Month	0.50	0.19	0.41	0.46	0.72	0.53
Year	4.13	2.13	5.38	5.79	8.00	5.19
Bonds 3-5 year						
Week	0.55	0.54	0.21	-0.09	-0.31	0.40
Month	2.93	1.27	1.40	0.97	0.47	1.43
Year	1.24	2.82	2.43	0.41	1.45	1.00
Bonds 7-10 year						
Week	0.57	1.10	0.49	0.33	-0.72	0.53
Month	3.88	2.02	2.01	2.08	-0.66	1.82
Year	-0.35	1.32	-0.82	-4.83	-6.91	-2.48
Equities						
Week	0.4	0.2	0.0	-0.5	-4.8	-0.1
Month	4.9	0.0	4.2	3.7	-7.0	3.3
Year	7.1	-11.5	-1.9	-15.8	-2.4	-6.0

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities.
The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

COMMODITIES Richard Mooney

Gasoline futures revamped

On Wednesday London's International Petroleum Exchange is to relaunch its gasoline futures contract, amid the regretful doubts of potential users that the revamped product will fit the bill.

"I wish it well", the head gasoline trader at a French oil company in London told the Reuters news agency, "but I don't think it's going to get the commitment needed to provide the liquidity we need."

IPE dealers agree that there is need for an effective gasoline hedging tool in Europe, but are sceptical about the prospects for the new contract reaching "critical mass" in terms of turnover.

In an attempt to widen the contract's appeal, buyers would be able to opt for physical delivery in ocean-going vessels (30,000 tonnes or more) when sellers' logistics permitted, Reuters said. Previously, delivery could only be collected in barge or coaster size vessels (up to 10,000 tonnes).

Also, sulphur content is lowered from 0.05 per cent to 0.01 per cent, to conform to conditions in the important German market.

"Every change to make it more flexible will help, but market-making is the key. If it can create enough open interest it would have a snowball effect," said a trader at a European state oil company. "There is definitely a need for it."

Over the past year or so there have been a series of aggressive squeezes on the over-the-counter gasoline swaps market, which is the only alternative hedge available for the European market, but has no physical delivery mechanism and is easy to manipulate.

● Other events this week include the publication tomorrow of the gold demand trends report for the fourth quarter of 1994 by the World Gold Council, a producer-funded promotional body. The council will also issue an analysis of gold demand figures for the whole of last year. Today sees the opening of the two-day Asia Metals and Mining Summit in Singapore.

Economics Notebook / Peter Norman

Valuable lessons of Mexico crisis

One adage that seems to hold true in international economic relations is that it is an ill wind that blows nobody any good. The recent crisis over Mexico could yet yield positive results, offsetting the bitterness it generated between the US and its main industrialised trading partners.

It has put short-term crisis management back on the international agenda, which will be no bad thing if, for example, the weekend news of financial troubles at UK merchant bank, Barings, should trigger a threat to the international financial system.

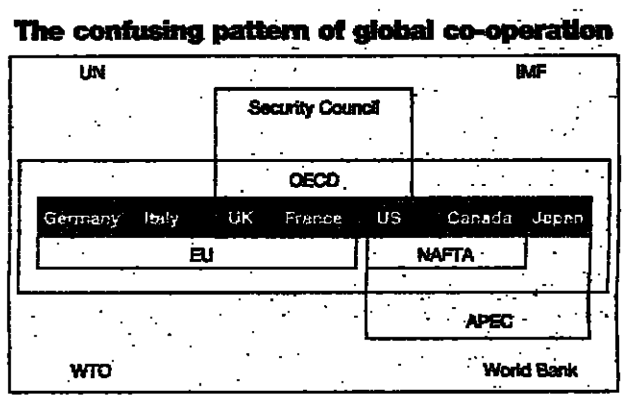
The world can learn much from the mistakes made by the White House and the US Treasury after Mexico's bungled devaluation in December.

January's announcement of the $40bn (£25.1bn) package of congressional guarantees gave financial markets a signal to treat a regional problem as a global crisis. The administration's inability to deliver on its promise demonstrated its weakness in Washington. The failure of the US to liaise adequately with other finance ministers in the Group of Seven over the substitute $50bn package showed that the Clinton administration had little idea of how to put fine words about international co-operation into practice.

More positively, the Mexican crisis may help the longer term review of the institutions of global governance that will be at the heart of the G7 economic summit discussions in Halifax, Nova Scotia, in June. The US, Japan, Germany, France, Britain, Italy and Canada will be attending.

The huge sums involved in Mexico's crisis and rescue were a timely reminder of the weakness of governments when financial markets give policies the thumbs down.

The confusing pattern of global co-operation



The provisional conclusion, among G7 finance ministers at least, is that the Mexican model of encouraging countries to develop through market-oriented policies that attract foreign capital is not flawed. However, its execution in Mexico's case could have been much better. Hence the perceived need for greater transparency and information about developments in emerging countries, such as Mexico, which are becoming increasingly important participants in the global economy.

This has encouraged consideration of how far the existing institutions of international co-operation, which are heavily biased to fostering relations among industrialised countries, can reach out to developing and newly industrialising countries.

The sherpas, the senior officials preparing the Halifax summit, have already focused their efforts on six broad areas of co-operation that involve both industrialised and developing countries. These are: promoting growth and economic prosperity; reducing poverty; protecting the environment; managing conflict; preventing the spread of weapons of mass destruction and combatting such evils as terrorism, organised crime, drug trafficking and money laundering.

Their preference for such a "top down" approach, dealing with broad issues can be explained partly by the bewildering profusion of institutions involved in policy co-operation.

The accompanying diagram, which gives a very simplified picture of overlaps and gaps in G7 co-operation with the rest of the world in the key areas of economic and trade policy, touches on only a few of many bodies involved.

In the case of the European Union, for example, co-operation involves a host of fora, including the commission, the council of ministers, the EU summit, the European parliament, European Monetary Institute, the monetary committee and the European Investment Bank.

Trade, part of the sherpas' remit of promoting growth and prosperity, involves the World Trade Organisation and, in various degrees, the International Monetary Fund, the Organisation for Economic Co-operation and Development (OECD), the World Bank, regional development banks and the United Nations Conference on Trade and Development (Unctad).

Combating poverty is handled by at least three United Nations institutions, the World Bank and countless non-government organisations: efforts that have not prevented absolute poverty afflicting more than 1 billion people on earth.

Politics and defence have spawned other co-operative organisations, such as the Nato alliance, the Western European Union and the Organisation for Security and Co-operation in Europe.

There are also groupings outside of the industrial world, such as the Mercosur customs union of Argentina, Brazil, Paraguay and Uruguay, and ASEAN, the Association of South-East Asian Nations, comprising Singapore, Malaysia, Thailand, Indonesia, the Philippines and Brunei.

The ultimate goal of the G7 at Halifax must be to increase understanding among these bodies and rationalise their activities, where possible.

One short-term effect of the Mexican crisis may be a slowdown in the growth of existing country groupings. There already appears to be less enthusiasm among existing members and applicant countries to expand the 25-nation OECD, which Mexico joined last year.

But if Mexico's problems lead to greater vigilance and mutual understanding of economic trends among countries, they could make the world economy and multilateral trading system better able to handle future shocks.

There is even some talk that the Mexican experience could revitalise the G7, encouraging it to look ahead and anticipate problems, whether economic or political. But that would depend on the US learning to be a team player.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 24 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY FEBRUARY 23 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	163.81	-4.6	153.58	100.72	125.61	147.77	0.4	3.96	162.20	151.10	99.29	124.19	146.39	190.82	157.95	180.08
Austria (16)	182.05	-0.4	170.69	111.93	139.59	139.38	-5.3	1.16	181.75	169.30	111.25	139.15	139.03	198.89	167.46	186.43
Belgium (35)	173.15	2.8	162.34	106.46	132.77	129.64	-1.9	4.26	173.23	161.36	106.03	132.63	129.60	177.04	161.53	164.10
Brazil (28)	128.91	-21.0	120.87	79.26	98.85	201.82	-20.7	1.60	126.43	117.77	77.39	96.80	196.65	-	-	-
Canada (103)	128.03	-1.1	120.04	78.72	98.17	129.31	-1.6	2.70	128.61	119.80	78.72	98.47	129.87	141.01	120.54	133.17
Denmark (33)	260.28	3.4	244.03	160.03	199.58	208.76	-0.8	1.49	259.80	242.01	159.03	198.91	205.71	275.27	236.61	265.95
Finland (24)	185.87	-0.1	174.27	114.28	142.52	177.62	-4.0	0.85	183.34	170.79	112.22	140.37	174.47	201.41	133.88	145.54
France (101)	163.25	-0.2	153.06	100.37	125.18	132.57	-3.2	3.26	165.86	154.50	101.52	126.98	133.79	181.44	157.79	174.82
Germany (58)	149.88	5.8	140.53	92.16	114.92	114.92	0.7	1.82	150.38	140.08	92.05	115.14	115.14	150.40	128.94	130.80
Hong Kong (56)	334.09	2.4	313.24	205.42	256.18	331.60	2.4	3.86	324.04	301.85	198.35	248.11	321.64	419.45	277.40	419.45
Ireland (16)	215.21	4.3	201.78	132.33	165.03	192.38	2.2	3.38	215.27	200.53	131.77	164.82	191.49	216.60	177.56	188.91
Italy (58)	73.47	-2.0	68.89	45.18	56.34	90.31	-0.6	1.72	74.74	69.62	45.76	57.22	90.41	97.78	67.25	73.47
Japan (484)	141.34	-9.9	132.52	86.90	108.38	86.90	-12.2	0.89	143.49	133.66	87.83	109.86	87.83	170.16	139.45	153.08
Malaysia (97)	483.36	0.8	453.20	297.20	370.64	475.45	0.8	1.78	473.33	440.91	289.73	362.41	465.56	594.76	398.16	540.28
Mexico (18)	849.35	-40.0	796.33	522.23	651.28	5297.85	-30.5	2.05	889.48	828.55	544.45	681.01	5470.35	2414.12	849.35	2267.86
Netherland (19)	225.76	3.8	211.67	138.81	173.11	170.29	-1.2	3.49	227.80	211.73	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (59)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (36)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (47)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (46)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (204)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA (513)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (862)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe (720)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (126)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (809)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1529)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (616)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (516)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (325)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1737)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2046)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1766)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2250)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EMERGING MARKETS: This Week

The Emerging Investor / John Barham

Turkey at turning point

Little went right last year for Turkey. Once a perennial favourite of emerging market investors, it became an outcast after a sudden loss of confidence last spring wiped almost 50 per cent off the index as part of a wider financial crisis.

But now, investors – domestic ones in particular – believe that the worst is over, and the composite index has gained nearly 20 per cent in dollar terms since the beginning of February, closing at an all-time high on Friday at just under the 30,000 level.

Turkey is still beset by many problems: high inflation, a depressed economy, a costly internal war and a turbulent political scene. It is burdened by a government viewed with contempt, blaming the incompetence of prime minister Tansu Çiller for last year's crisis.

Even so, Mr Yavuz Canevi, managing director of Indosuez's Europa-Turk Bank, says: "I am really confident that without any serious mistakes [by the government] we can rebuild confidence. I frankly do not expect a major crisis in 1995." After what Turkey suffered last year, Mr Canevi's comment is bullish indeed.

The market rose 2.9 per cent last Monday after the People's Socialist party (SHP), Mrs Çiller's social democrat junior coalition partner, merged with an opposition social democrat splinter group. As Mr Albert Nikemken, director of research at Istanbul's Global Securities brokerage, says: "It was a bizarre situation. Usually stock markets don't like left wing parties."

However, investors believed that the new party line-up would increase the government's backing in parliament, making elections less likely this year. Mr Hikmet Çetin, the new party's leader, is a highly respected politician. Mr Canevi believes Mr Çetin "can add value and new credibility to the government. There is an opportunity to be seized."

Assuming it is seized, many like Mr Canevi in the Istanbul business establishment believe a stronger, more confident government can begin to make headway on economic reform. Divisions within the coalition have blocked progress, particularly over privatisation, for years.

He adds that Turkey, already has a track record of rapid growth in the late 1980s, has many well-managed companies of international calibre and has many features of a modern economy.

He believes political stability can reinforce a virtuous circle already in the making. The IMF should soon approve a new economic performance criteria for Turkey; this will improve Turkey's credit rating (currently below investment grade). The international bond and syndicated bank loan markets will revive, privatisation will pick up steam, and foreign direct investment will recover.

Furthermore, the signs are that a long-delayed customs union with the European Union will soon be approved. Customs union would begin in 1996, giving Turkey trading privileges with the EU that few other countries enjoy.

A resurgent local bond market is also strengthening equities. The government has recently extended the life of its Treasury bills to six months from three months – admittedly by paying a hefty real interest rate of between 30 and 50 per cent – which has increased confidence in the financial system as a whole. Fears that inflation would outpace the rate of devaluation, or that Turkey would reschedule its $12.5bn domestic debt or $65bn foreign debt, have faded.

Brokers say local investors have driven the market rally, attracted mainly by possible privatisation plays and buying into state companies that are listed on the Istanbul market but are majority-owned by the government. Petrol Ofisi, a service station chain, Erdemir, a steel mill, and Tupraş oil refineries were the main targets. Relatively little fresh money has entered the market.

Most of the price increases have come from stronger trading activity. Foreign fund managers, whose shareholdings are equivalent to about 6 to 8 per cent of Istanbul's $22.14bn market capitalisation, have been more cautious.

Mr Nikemken adds that a more stable economic environment will improve trading conditions for most companies this year. Textiles, glass, paper, tourism and food and beverage sectors should all recover. However, the automotive and banking industries are likely to remain lacklustre.

But not everyone is convinced that Turkey has turned the corner. Among them are some IMF officials. One senior IMF negotiator said: "Inflation remains very high. I cannot say when the foreign credit markets will open their doors to Turkey.

"The problem is that inflation is not that easy to cut. The question here is whether the economy has enough patience to apply [corrective] measures. I have no answer to that."

Foreign bankers and business people are much more guarded over the country's immediate future. To begin with, financial flows to Turkey are unlikely to be as large as some locals might hope. A European bank executive with more than a decade's experience in Turkey said: "Turkey is not in a vacuum. This is a post-Mexico market."

He adds that the renewed vigour of the bond market has "only bought the government a few months' breathing space". He is also sceptical about the durability of the new political scene: "Maybe the policies are there but I still think they lack the skills. Anyone who is any good has quit the government. Çiller's word is worth nothing, there is a hung parliament, there is immobility. This year will be worse than 1994."

Even Mr Canevi's optimism is more guarded than it first seems: "I am very, very bullish to the end of April. I cannot look more than three months ahead." Still, three months is a very long time in the Istanbul stock market.

Shanghai exchange investigates price fixing

By Tony Walker in Beijing

Shanghai this week is braced for a bumpy ride on its equity and bond markets following the turmoil last week which culminated with trading in bond futures being suspended on Friday.

The Shanghai Stock Exchange is investigating attempts at market manipulation following unprecedented activity in the bond futures market on Thursday. On that day, more than $100bn worth of contracts were traded.

"Abnormal futures trading of the state bond coded 327 occurred at 4:22pm (Thursday)," a stock exchange circular said.

"Exchange authorities found a certain member company deliberately violating regulations in an attempt to affect the settlement price."

The price of the 327 series bond fell sharply near the close of trading, but the exchange cancelled contracts worth the equivalent of about $37bn traded after 4:22pm. Shanghai securities houses are braced for a run by anxious investors unnerved by local newspaper reports.

The turmoil spilled over into the equities markets on Friday, when the A-share index for local investors plunged 5.47 per cent. Heavy selling by local brokerages raising funds to cover bond trading losses is believed to have been behind the fall.

Mexico feels pressure to set realistic targets

By Leslie Crawford in Mexico City

Most stockbrokers believe the Mexico stock exchange is set to plummet to new depths in the coming weeks as high interest rates, an economic recession and the perceived lack of direction in the government's economic policies continue to frighten away investors.

Not even the signing of a $20bn (£12.5bn) US aid package for Mexico last Tuesday was sufficient to raise the stock market's spirits. The Bank of Mexico's decision, on the eve of the accord, to increase interest rates by 10 percentage points in an effort to stifle inflation raised fears that many debt-laden companies would buckle under the weight of heavier financial costs.

There is also concern about the government's delay in revising its economic programme in view of the rapid deterioration of the economy. With cumulative inflation reaching 6.1 per cent in the first six weeks of the year – against a target of 19 per cent for the whole of 1995 – the government is under pressure to set more realistic targets for growth (lower than the projected 1.5 per cent), inflation (closer to 30 per cent), and to signal where it wants its floating exchange rate to stabilise.

The only hard-and-fast policy to emerge from the government last week was that the central bank would stick to high real interest rates until inflation was tamed. After the benchmark rate on 28-day treasury bills hit 59 per cent, money began flowing out of equities and into government paper. As a result, Mexican stocks lost another 15 per cent of their value, driving the IPSA index to below its psychological support level of 1,600 and to a new two-year low.

The collapse in share prices is even more severe when calculated in dollar terms. Telmex, the stock market favourite, has seen its capitalisation plunge from $25.83bn to $15.75bn since the bungled devaluation of the peso in December. Banacci, Mexico's largest banking group, has lost $6.73bn, or three quarters of its share value, since December. ICA, the largest construction company, is now valued at $667m, against $2.72bn before the devaluation, while Cemex, the cement multinational, has seen two thirds of its market capitalisation evaporate into thin air.

Turnover has been low – less than $100m a day – since the flight of foreign investors, who accounted for more than 70 per cent of trading before Mexico's economic debacle. "We sold half of our Mexican position on the day of the devaluation," says Mr Bill Wilby of the Denver-based Oppenheimer Global Fund. He has whittled down the fund's Mexican portfolio, once worth $80m, to just two stocks, and he is not tempted by the bargain basement prices to be had.

"The case for investing in Mexico will have to be rebuilt over time," Mr Wilby says. "The Mexican government's reputation was badly damaged by the mishandling of the devaluation. The high interest rates we are seeing at present are only a reflection of how much credibility the government has lost."

Mr Felix Boni, executive research director at the Mexican brokerage Interacciones, believes the recovery of the stock market will have to be preceded by a return of confidence in fixed income instruments, such as treasury bills. He does not think investors will return to equities until the government succeeds in stabilising the peso within the floating currency regime and interest rates begin to fall.

"Markets are only beginning to recognise how complicated a year this will be for Mexico," says Mr Lars Schonander, Baring Securities' chief economist for Latin America. It is difficult to determine what the real value of Mexican companies should be in the present climate of uncertainty, he says. It is even more difficult to find a publicly quoted company that can be expected to do well in spite of the economic recession and the sharp increase in the cost of credit.

Baring Securities emerging markets indices

Index	24/2/95	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (301)	133.96	+1.59	+1.20	-3.19	-2.33	-24.08	-15.23
Latin America							
Argentina (20)	70.01	+2.61	+3.87	-10.50	-13.04	-16.10	-18.70
Brazil (21)	159.41	+16.35	+11.43	-25.04	-13.58	-49.97	-23.86
Chile (12)	195.05	+14.35	+7.94	-6.87	-3.40	-16.52	-7.81
Mexico (25)	61.00	-5.28	-7.97	-14.94	-19.68	-36.63	-37.51
Peru(16)	676.33	+1.54	+0.23	-27.05	-3.85	-172.34	-20.31
Latin America (94)	103.37	+3.50	+3.50	-16.25	-13.58	-35.40	-25.51
Europe							
Greece (16)	86.02	-1.58	-1.80	+1.39	+1.64	-0.97	-1.11
Portugal (18)	118.40	+1.16	+0.99	+6.07	+5.40	+2.12	+1.83
Turkey (21)	76.70	+4.12	+5.67	+10.09	+15.14	+0.59	+0.77
Europe (55)	98.18	+0.96	+0.99	+5.52	+5.96	+0.48	+0.49
Asia							
Indonesia (26)	133.35	+1.99	+1.52	+11.25	+9.21	-0.34	-0.25
Korea (23)	122.85	+2.76	+2.30	+1.59	+1.31	-17.03	-12.18
Malaysia (23)	213.53	-4.78	-2.19	+31.75	+17.47	+2.67	+1.27
Pakistan (11)	91.56	+1.37	+1.52	+1.69	+1.88	-14.64	-13.79
Philippines (12)	252.56	-8.97	-3.43	+16.70	+7.08	-29.57	-10.48
Thailand (25)	244.21	-1.52	-0.62	+24.02	+10.91	-7.43	-2.95
Taiwan (32)	168.61	-0.46	-0.27	+9.49	+5.96	-15.54	-8.44
Asia (152)	201.68	-1.78	-0.87	+19.15	+10.49	-8.94	-4.24

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES — Philip Gawith

Markets face turbulent week

If the events of last Friday were a harbinger of things to come, foreign exchanges are set for a busy week.

The lira and the peseta touched historic lows, while the franc, sterling and dollar moved in that direction. The D-Mark reigned supreme.

Trading patterns were an extension of recent trends. The dollar is the victim of residual concern about Mexico, and the perception that US interest rates may be peaking just as those in Germany are set to rise.

In Europe, sterling and the franc are both suffering from political uncertainty. In Italy, as well as political uncertainty there is the overlay of concern about inflation risks and deficit reduction. The problem for the peseta is also one of political risk, coupled with worries about debt default.

Compared with these, the D-Mark is a haven of both political and monetary stability.

These trends cannot continue much longer without something giving way. The peseta is currently 11.7 per cent weaker than its agreed central rate within the EMS grid, against the Dutch guilder. If this spread widens to 15 per cent, the peseta will have to be supported under the rules of the exchange rate mechanism.

How these tensions will resolve themselves, however, is not clear.

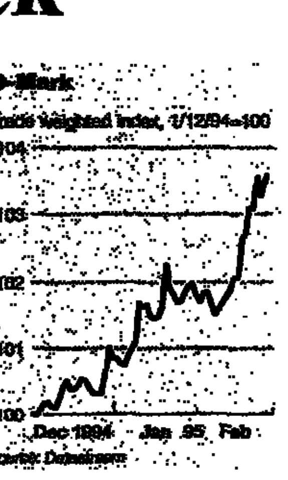
With market sentiment as bearish as it is, dollar appreciation looks unlikely.

Rescue by the central banks also seems unlikely. The Bundesbank lacks the motivation, and the Fed is unlikely to succeed on its own. It is also doubtful whether intervention is the suitable tool for addressing tensions in Europe, tensions which are, at root, political.

Sterling faces a difficult week. The government may well lose a mid-week vote over European policy, which could trigger a no-confidence vote. Defeat would probably precipitate a sterling crisis; victory, a limited respite.

The pound may also be hit by the crisis at Baring Brothers, the investment bank. Analysts expect the currency to suffer from any loss of confidence in the banking sector.

D-Mark
Trade weighted index, 1/12/94=100



Source: Datastream

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, February 24, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

WORLD BOND MARKETS: This Week

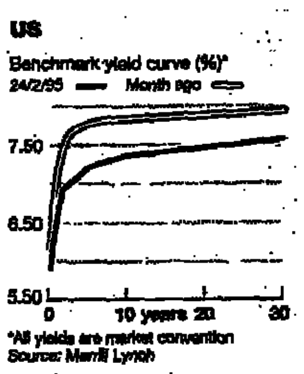
NEW YORK
Tony Jackson

The Barings collapse could give the bond market pause for thought this week. Barings is a big player in Latin American markets. When the Fed mulls its policy, it has to take account of possible fragilities in the financial system worldwide.

Domestically, the market has to reflect on just how strong a signal Mr Greenspan was giving last week: whether he was really saying rates might come down, or whether – as some commentators are suggesting – he was merely expressing official uncertainty on what is happening in the real economy.

The chief piece of evidence on the economy this week is likely to be Wednesday's final figure for GDP growth in the fourth quarter.

There is no consensus among analysts on whether the preliminary figure of 4.5 per cent will be revised upwards or downwards. It seems clear, though, that the preliminary figure for inventories, which



*All yields are market convention
Source: Merrill Lynch

showed a rapid build-up in the quarter and implied economic slowdown, was too high and will be revised downwards.

Other data due this week include the Conference Board's survey of consumer confidence tomorrow, expected to show a slight weakening, and the purchasing managers' index on Wednesday. This is expected to show signs of slowdown as well. All in all, if the Fed is having difficulty reading the trends, it is hardly surprising.

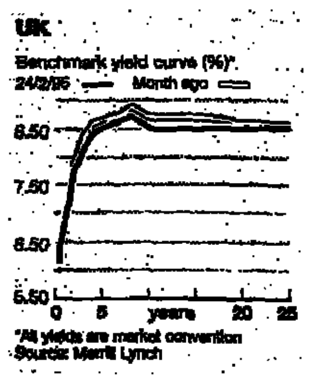
LONDON
Graham Bowley

Economic data and domestic political developments are likely to be the focus for the UK gilts market this week.

Overseas investors have already greeted signs of weakening support for the British government over Northern Ireland and the EU with trepidation.

With discussion of the Northern Ireland framework document intensifying and a debate on European policy in the Commons on Wednesday, gilt prices could come under further pressure this week, said Mr Michael O'Hanlon, international economist at PaineWebber. Longer-dated maturities in particular would be vulnerable and there could be a steepening of the yield curve, he said.

The purchasing managers' index due to be released on Wednesday will be watched closely for signs of price pressures, especially after a strong price expectation component in Friday's CBI survey.



*All yields are market convention
Source: Merrill Lynch

Personal borrowing data for January due on Friday could show a continued rise in consumer credit, which rose by an annualised 11 per cent in December.

Money supply figures are due today. M0 has been slowing in recent months after reaching a peak of 7.3 per cent in October. Ms Marian Bell of the Royal Bank of Scotland is forecasting growth of 6.2 per cent this month, down from 6.4 per cent in January.

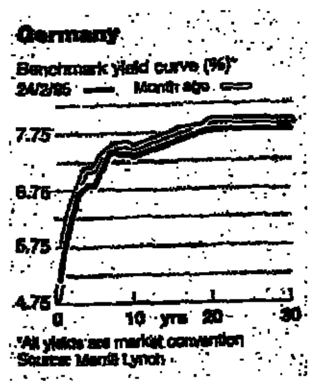
FRANKFURT
Andrew Fisher

The market had plenty to digest last week as the engineering strike got under way in Bavaria and the Bundesbank announced much improved M3 figures for January.

This week, the central bank's council meeting is likely to focus closely on the implications of this year's wage round for prices and thus for changes in interest rates.

The strength of the D-Mark (up 2.4 per cent on a trade-weighted basis since the start of the year) reduces the need for rises in official short-term interest rates just now – they have not changed since last summer – and the Bundesbank is unlikely to move while foreign exchange markets remain nervous.

However, the latest monthly report made quite clear it would act if price pressures became too strong after the recent fall in the inflation rate, which brought it just above the central bank's goal of 2 per cent.



*All yields are market convention
Source: Merrill Lynch

Thus economists generally expect further rises in the discount and Lombard rates, though they are divided as to whether this will happen in the first or second half of the year.

The wage round will clearly have a strong influence. Some big companies would willingly pay high settlements to keep production up as order books swell. This would add to the inflationary pressures already in the pipeline.

TOKYO
Emiko Terazono

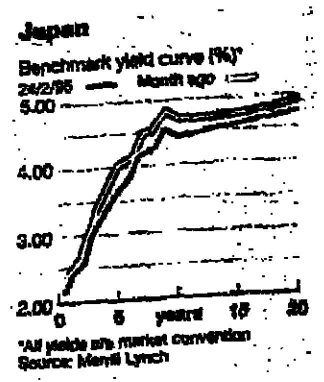
Financial authorities are expected to try to curb any fall in Japanese shares sparked by the Baring Brothers' crisis by easing short-term money market rates.

Since banks depend on unrealised profits on stock holdings, a plunge in stock prices could affect the entire financial system. Heavy selling in the Tokyo stock market when the economy is already vulnerable following last month's earthquake, will raise expectations of a cut in the official discount rate.

Bond prices rose last week as Japanese shares fell on the prolonged parliamentary debate over the government's decision to rescue two credit unions.

Financial authorities believe the two financial institutions, whose problems stem from extensive loans to speculative projects, pose a threat to the country's financial system.

However, the Tokyo metropolitan assembly is said to be opposed to the use of

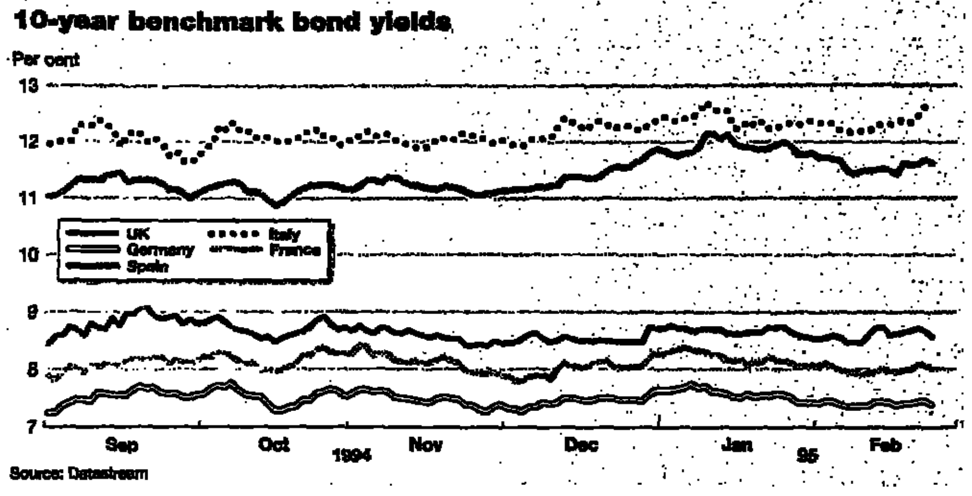


*All yields are market convention
Source: Merrill Lynch

residents' taxes for solving the problem. The assembly's vote is scheduled for Thursday.

Meanwhile, the release of the Tankan, the quarterly survey of business sentiment, by the central bank on Friday, will provide investors with a picture of the underlying perception of current economic conditions. The survey will indicate the effect of last month's earthquake in Kobe and could drive short-term yields lower.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.75	1.75	4.50	6.40[1]	8.25	6.75[2]
Overnight	5.88	2.22	4.88	5.20	8.75	5.26
Three month	5.89	2.21	4.93	5.75	9.37	6.62
One year	6.53	2.34	5.63	6.63	10.62	7.62
Five year	7.22	3.72	6.92	7.73	12.48	8.64
Ten year	7.36	4.35	7.40	8.06	12.63	8.70

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	102-26	103-00	+0-07	103-09	102-18	383,784	305,903
Jun	102-09	102-15	+0-06	102-23	102-00	75,700	75,149
Sep	102-02	102-02	+0-07	102-09	101-19	4,350	8,306

Sovereign ratings

Mexican crisis underlines agency pitfalls

Even before the December 20 devaluation of the peso rocked Mexico's financial markets, 1994 was a politically and economically turbulent year for that country. Yet until December 22 Standard & Poor's, one of the two main US credit rating agencies, had the country's sovereign debt only one step below an investment grade rating with a "positive outlook".

It is not unusual nor surprising, say many economists, that rating agencies react to events rather than anticipating them, but the case of Mexico raises questions about the amount of attention investors – particularly those new to emerging markets – should pay to sovereign ratings on developing countries.

"The fundamental reason for rating agency existence is to see the future," says Mr Kwang Jun, a senior economist at the World Bank. But he adds that when crisis erupts, as it did in Mexico, the "rating exercise may not be fast enough to catch up, so they end up being viewed as reactive."

This is problematic, he says, given the role the agencies play in directing capital flows around the world, especially to developing countries with which investors from industrialised nations may not be so familiar.

"Rating agencies are extremely important because, for many emerging market countries, ratings give them credibility in capital markets, so it gives them the ability to tap developed market funds."

Two days after the crisis broke out in Mexico, S&P removed the rating's positive outlook and put it on CreditWatch; it left Mexican long-term foreign debt rated at BB plus, which the agency describes as having "less near-term vulnerability to default than other speculative issues", until more than a month after the crisis began. Not until February 1 was Mexican long-term foreign-currency debt downgraded to BB.

Mr David Beers, head of the sovereign ratings group at S&P, defends the agency's position, pointing out that Mexico remained in speculative territory despite pressure throughout 1993 and 1994 to boost it to investment grade.

"In the speculative grade categories, what we are talking about is uncertainty," he says. "We didn't expect the incoming government to do what it did. We and [millions of] other people didn't expect that."

Although S&P's October report on Mexico does point out the potential perils of dependence on "confidence-sensitive foreign capital inflows", the overall tone is extremely positive.

"The essential elements of Mexico's remarkable economic transformation – fiscal discipline and exchange rate policy credibility – have weathered the political storm that began in Chiapas and gathered strength as the election campaign unfolded," said S&P.

Moody's Investors Service, the other major rating agency, was much more cautious about Mexico's long-term prospects.

It highlighted more prominently the potential problem of Mexico's current account deficit and high external debt burden, and kept Mexico's sovereign debt two steps below investment grade.

"We have been consistently lower on Mexico and this is a record we are reasonably proud of," says Mr David Levey, managing director of Moody's sovereign risk unit. Before the crisis "we were getting roundly criticised from a lot of people for being too negative on Mexico".

However, while Moody's has been more conservative on Latin American debt, that is not true in general of its ratings in developing countries. In Asia, for example, Moody's ratings tend to be much more aggressive than those of S&P.

China's sovereign debt is rated investment quality by both agencies, but Moody's is four steps into investment grade while S&P puts the emerging market giant just two steps out of speculative territory.

Among the most striking differences between the two agencies is in one of the newest countries to obtain a rating, South Africa.

Moody's puts the nation one step into investment grade, citing its extremely low foreign debt, while S&P gives the credit a rating two steps below investment grade.

These cases highlight the extent to which the ratings are based on subjective interpretations of essentially similar data.

Both agencies note South Africa's budget deficit, but Moody's bases its rating on South Africa's low external debt and the government's commitment to reduce the budget deficit.

S&P in contrast sees creditworthiness constrained by the political risks in reducing high budget deficits.

In these cases it seems the market is much more cautious than the agencies, because benchmark credits for both nations trade well above similarly rated US corporate securities.

At the end of 1993, the yield on Mexico's benchmark Brady bond – stripped of underlying collateral – dipped below that of an index of similarly rated US bonds and got within 50 basis points of an investment quality issue.

However, the yield shot up from the very beginning of last year, when the peasant rebellion broke out in Chiapas, and the bond never again approached investment grade.

Mr Charles Dallara, managing director of the Institute for International Finance, believes that in the relatively new field of emerging market credits it is easy to misuse the sovereign ratings.

"It is important to recognise that the rating agencies are playing a new role," he says. "Investors and underwriters and lenders have an obligation to come to terms with the fundamentals of the marketplace and not rely unduly on the rating agencies.

One of the biggest implications of this blow to many emerging markets may be that some of the banks, mutual funds and others who got burned in Mexico, will increase their sovereign research units and take on even more responsibility for local markets.

But Mr Beers cautions that in the end there is no way to rule out uncertainty and that is not the aim of the rating agencies.

In the future, he said, S&P analysts will probably pay more attention to risks from short-term capital flows that proved Mexico's undoing, but that does not mean new dangers will not appear.

"There will still be defaults and there will still be people who are surprised by those defaults," he says. "I think people will be sadly disappointed if they think that one of the outcomes of the Mexican crisis is that people are going to get it right now."

Lisa Bransten

Italian government bonds

Yield risk premium at two-year high

Investor anxiety over Italy's public finances continues to weigh heavily on its government bond market. While government bond yields have stabilised in most other European markets this year the yield risk premium on Italian bonds has risen to heights not seen for almost two years.

Last week, Italian 10-year yields rose to around 12½ per cent, 527 basis points higher than that on German government bonds and a reflection that international investors continue to doubt the ability of the Italian authorities, to tackle the country's huge public sector deficit.

"Italy has been singled out from other European markets because of its fiscal problems," said Mr Richard Benzie of UBS in London. "It parted company from the rest in the middle of last year when people started to realise that Berlusconi [the former prime minister] could not deliver much on fiscal reform."

The latest attempt at fiscal reform by Italy's new government under prime minister Lamberto Dini – last week's "mini-budget" of emergency tax increases and spending cuts to cover a L20,000bn shortfall in this year's budget – did little to restore confidence.

It was initially applauded, but then the market tumbled on Friday – Italian bond futures fell by one point – on fears that the measures were not sufficient and the proposals would have a difficult passage through parliament.

"The measures were a significant step in the right direction but they were probably not enough to stabilise the debt to GDP ratio," said Mr Jose Luis Alzola, southern European economist at Salomon Brothers in London.

Last week's move by the Bank of Italy to raise short-term interest rates – the discount rate to 8.25 per cent and the Lombard to 9.75 per cent – was also taken badly by bond investors as it increased the cost to the government of its debt interest payments.

The rise was prompted by provisional data showing a sharp pick-up in inflation this month to 4.3 per cent.

"The market is pricing in a serious inflationary problem, anticipating 10 per cent inflation in three years' time," said Mr Benzie. He thinks these expectations are overdone and that successful fiscal reform would restore some stability to the currency and dampen inflationary expectations.

"There is a lot of value in the long end of the Italian bond market at the moment, although there are, of course, worries," he said.

Others are less optimistic and can see the yield spread over Germany widening further. Crucially, this depends on the last week's budget measures passing smoothly through parliament and then the successful completion of Prime Minister Dini's next hurdle – pension reform.

Graham Bowley

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Daio Paper Corp.(a)(b)§	100	Mar.1999	4.375	100.00	-	-	Yamaichi Intl.(Europe)
Citi Investments	50	Mar.1996	11.00‡	100.817R	10.12	+350(7-6/8)	Citibank International
F.UBA Class A, S.1995-1(a1)‡	1bn	Mar.1999	(a1)	100.00R	-	-	Merrill Lynch Intl.
F.UBA Class A, S.1995-2(a2)‡	650	Mar.2002	(a2)	100.00R	-	-	Merrill Lynch Intl.
Adelaide Bank‡	150	Mar.1998	(f)	99.73R	-	-	BZW
Repackaged Sovereign Invs.‡	100	Dec.1999	(u,a)	99.875R	-	-	BZW [illegible]
[illegible]							
CANADIAN DOLLARS							
BCE(f)	175	Mar.2000	8.95	102.00	8.430	-	BZW
GUILDERS							
Toyota Motor Credit Corp.	250	Mar.1998	6.75	99.77R	6.837	+35(6¾%-97)	ABN Amro Hoare Govett
LUXEMBOURG FRANCS							
[illegible]							

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Pool purchase price £/MWh	Final Pool purchase price £/MWh	Final Pool selling price £/MWh
0030	9.00	8.95	8.95
0100	10.06	16.40	16.40
0130	10.44	9.01	9.72
[illegible]			

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Pool purchase price £/MWh	Final Pool purchase price £/MWh	Final Pool selling price £/MWh
0030	9.00	8.75	8.75
0100	9.08	9.09	9.09
0130	15.75	9.02	8.16
0200	16.73	9.02	8.16
0230	10.63	16.40	16.40
0300	11.30	10.17	10.17
0330	11.30	10.17	10.17
0400	10.46	9.09	9.09
0430	8.94	8.01	8.01
0500	8.78	8.60	8.60
0530	8.78	8.10	8.10
0600	6.19	6.07	6.07
0630	8.78	8.20	8.20
0700	8.89	8.92	8.92
0730	8.04	9.25	8.80
0800	10.80	11.35	11.46
0830	10.42	14.45	15.45
0900	12.57	21.80	24.34
0930	12.34	29.95	34.21
1000	16.78	35.12	40.47
1030	16.80	35.53	41.01
1100	16.81	35.99	41.59
1130	17.04	34.17	39.88
1200	17.28	34.83	40.22
[illegible]			

The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 [illegible] between 8:30am and 5:15pm Monday to Friday.
©Energy Settlements and Information Services Limited

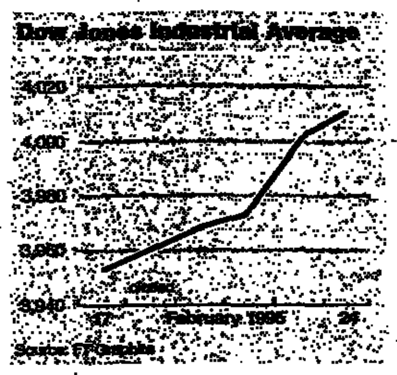
هكذا من الاصل

هكذا من الاصل

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Investors seek confirmation of slowdown



This week may be volatile for US stocks, as each item of economic data released could cause investors to reassess their beliefs about the course of monetary policy. Another unsettling factor may be the fall-out from Baring Brothers' crisis in the UK.

Last week, investors ran the blue chip index through the psychologically important 4,000 point barrier after interpreting comments from Mr Alan Greenspan, chairman of the Federal Reserve, to mean the central bank had finished raising interest rates.

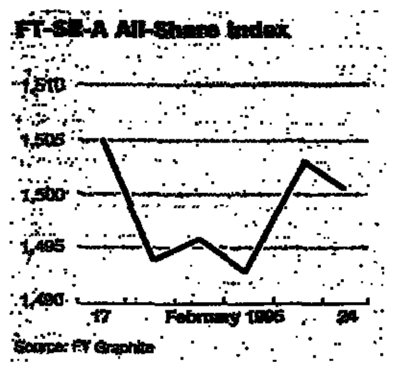
If, as some economists predict, nearly all of this week's economic news supports the view that the economy is slowing, the Dow Jones Industrial Average could continue to set new records. But any whiff of inflationary pressures could cause a tumble.

Among the most important data this week will be Wednesday's release of a revised fourth-quarter gross domestic product figure. In January, the Commerce Department estimated it to be 4.5 per cent, and the median forecast has the figure holding steady. But Donaldson, Lufkin & Jenrette believes it will be revised to 4 per cent, while Salomon Brothers expects the figure to move up to 4.6 per cent.

Other potentially market moving data to be released include a survey of consumer confidence tomorrow, a survey of activity among purchasing managers on Wednesday, and figures on factory orders and the index of leading economic indicators on Friday.

LONDON — Terry Byland

Baring crisis to dominate sentiment



The UK stock market will be dominated this morning by the financial crisis at Baring Brothers. Other financial sector stocks will inevitably suffer from their involvement in the derivative markets.

The whole market will be prey to fears of forced share selling, although it is too early to estimate such risks.

The market adopted a cool approach to the early highlights of the domestic corporate reporting season. ICI and British Gas failed to produce the dividend increases sought by the market, and both shares sulked on a day when the Dow Jones Industrial Average was bursting through 4,000 for the first time.

This week could promise more of the same, as December year-end companies – the majority – are led in by British Aerospace and a clutch of financials, including Abbey National. The coming fortnight will bring reports from 50 companies, 20 from the FT-SE 100 list.

Kleinwort Benson remains optimistic on the dividend outlook, in spite of last week's disappointments. It is considering pushing up its 1995 dividend growth estimates from 8.5 per cent to around 10 per cent, which would be more in line with the market consensus.

Any good news from BAe is probably already in the share price, since the board predicted its 1994 profits and dividend when announcing the proposed joint venture with ATR. But there will be other opportunities for market surprises.

OTHER MARKETS

HONG KONG

The colony's two banking giants announce their annual results today, *writes Louise Lucas*. Stronger than expected growth *could trigger a rally* in the finance sector, which has been relatively weak recently.

The Hang Seng index closed on Friday at a year's high, with property developers in the lead. Next week, the major property developer, Sun Hung Kai Properties, is due to launch 90 apartments in Shatin, and this should ensure that investors stay focused on the sector.

In banks, analysts are looking for net earnings per share growth of between eight and 12 per cent for HSBC Holdings and marginally lower growth for Hang Seng Bank.

Negative factors still affecting the market include the weaker dollar, the possibility of another rise in interest rate and the still inconclusive Sino-US trade talks on intellectual property *rights*.

AMSTERDAM

The Dutch chemical industry is represented by 1994 results from Akzo Nobel today, and DSM on Thursday. The two companies are expected to confirm a continuing strong recovery in their earnings although last Thursday, the DSM share price weakened after comments from Royal *Dutch that its petrochemicals* growth was slowing.

Analysts expect a revival of investor interest this year in the Dutch chemical duo, which have been out of favour recently after performing well in 1993 and early 1994.

Akzo Nobel is forecast to make a net profit on ordinary operations of Fl 1.22bn to Fl 1.28bn, up from Fl 934m in 1993, and to raise its dividend from Fl 6.50 to Fl 7 a share. DSM is seen making a Fl 502m to Fl 528m profit after a Fl 60m loss in 1993, and lifting the payout from Fl 1.50 to Fl 4.

ZURICH

Aluminium means much less to Alusuisse-Lonza, the Swiss packaging, aluminium and fine chemicals group, than it did five years ago, *writes Ian Rodger*, so the wild goings on recently in the market for the light metal have had less of an effect than might have been the case.

Indeed, the talk at the group's annual press conference this morning is more likely to focus on the fast growing and highly profitable packaging division. It is thought to have been the main factor behind the group's more than doubled net income last *year to SFr200m, and is* expected to sparkle again this year.

The group may also shed light on its search for a new name – in which aluminium is most unlikely to figure.

FRANKFURT

Mannesmann, the foreign investors' favourite, a combination of steel, engineering and cellular telephone prospects, produces 1994 figures today. UBS estimates a 9.1 per cent increase in sales, and a DVFA net profit of DM495m against a loss of DM139m for the previous year. "On balance," say the brokers, "we are looking for a confirmation of the acceleration in demand that had been reported for late 1994 and we therefore expect the company to make an optimistic projection for 1995."

From BMW, spared so far from the IG Metall strike in Bavaria, UBS expects the dividend to be left unchanged at a press conference on Wednesday although net profits for 1994 should have seen a significant increase, from DM516m to DM734m.

HELSINKI

A string of leading Finnish companies report their 1994 figures this week, *writes Christopher Brown-Humes in Stockholm*, with market watchers hoping for some pleasant surprises.

Inevitably, most attention will be focused on Nokia, the world's second biggest maker *of mobile phones, which* unveils results tomorrow. In the first eight months, profits rose nearly five-fold to FM2.29bn on a 40 per cent rise in sales to FM18.2bn. Analysts are looking for full-year profits of around FM3.8bn, after FM1.15bn in 1993.

Should the company fall short, the reverberations will be felt throughout the market, where Nokia now accounts for *almost 30 per cent of total* capitalisation. Indeed, Nokia shares have already been unsettled by a statement from the company's US rival, Motorola, concerning inventory build-ups in the US.

Other reports due this week include Repola, the pulp and paper concern; Metra, the industrial group; and Kemira, the chemicals group, which was privatised partially last autumn.

Repola reports today, and analysts are looking for profits of nearly FM2bn after FM428m *in 1993. A strong performance* is expected from United Paper Mills, the group's forestry unit, due to improved demand and cost-cutting.

TOKYO

Tokyo stock market investors are bracing themselves against *heavy selling following* revelations at Baring Brothers in the UK, *writes Emiko Terazono.*

Selling in the futures market would prompt the unwinding of cash positions held against futures contracts.

Market participants had already been worried about the large, long arbitrage positions against the March futures contract. As of last Tuesday, *outstanding long arbitrage* positions totalled a record 1.5bn shares.

There was heavy arbitrage unwinding late last week which took the Nikkei index to a new low on reports that Baring Securities was liquidating its positions in the futures market.

Compiled by William Cochrane

Global share offerings

UK power generators hog the new issue limelight

The UK government's sale of its remaining 40 per cent stake in National Power and PowerGen, the big power generators, hogged the limelight last week in an otherwise quiet international new issue market.

Book-building for the international tranche of the £4bn sale, one of Europe's largest privatisations this year, began last Thursday and met with a strong response, according to joint global co-ordinators BZW and Kleinwort Benson. "We've had very strong demand across all regions and the book itself *is covered," said a spokesman.*

Book-building ends on March 3. The international offer price and allocation will be agreed over the weekend, and trading in the partly-paid shares begins on March 6.

While primary activity in the emerging markets remains subdued, the Indian global depositary receipt (GDR) market is abuzz with talk of an imminent offering from Ashok Leyland, which would be the first Indian company to issue international equity this year.

The company is still negotiating terms of the deal with joint lead managers Jardine Fleming and UBS, but talk is of a $100m issue, with the roadshow expected to kick off in the next few days.

LRLIH, a UK-based company jointly owned by Fiat subsidiary Iveco and the Hinduja Group, which holds a 50.9 per *cent stake in Ashok Leyland, is* considering taking $25m of the issue.

Ashok Leyland is a leading manufacturer of medium-sized and heavy commercial vehicles, which some say puts it in a strong position to successfully re-open the GDR sector.

"Indian motor sector GDRs are currently trading at a premium to the underlying stock market, while the majority of other Indian GDRs still trade at discounts," says Mr Ian Hannam, a director at Jardine Fleming.

Indeed, Bajaj Auto's GDRs currently trade at a premium of 12.8 per cent to its shares, while truckmaker Tata Engineering trades at a 10.8 per cent premium.

In recent weeks, the GDR sector has staged a remarkable recovery from its depressed levels in early January, when the sector slumped following the Mexican peso crisis.

"The average discount has gone from around 25 per cent at the beginning of the year to about 7¼ per cent currently," says Mr Hannam.

However, the Ashok Leyland deal, if it goes ahead, is not likely to open the floodgates for companies queueing to issue in the GDR market.

"Sentiment for new issues *continues to be poor.* People have lost quite a lot of money and are very reluctant to come back just yet," said one dealer.

In addition, given the recent rise in commercial banks' term lending rates to around 15 per cent, investors may *feel* more comfortable leaving their money in bank accounts than investing it in equities as long as political and budget jitters remain.

More than a dozen GDR deals for Indian issuers were slated for the first quarter of this year, but none has materialised for a variety of reasons: nervousness ahead of two regional elections and the publication of the 1995 budget in mid-March, the uncertain US interest rate outlook and a reluctance by investors to participate in emerging markets after the Mexican crisis.

Still, the Indian stock market *rallied sharply last week,* buoyed in part by talk that the Securities and Exchange Board of India may revive the practise of forward trading, or *badla*, which was banned last December on the grounds that it was leading to excessive speculation by investors.

However, "I'd be extremely surprised if they bring it back – it got such bad press last year," says Mr Anoop Villait, *Indian equity salesman* at James Capel. "I see this as a bit of a suckers' rally."

With no strong fundamental news backing the rally, he says, the gains are not sustainable in the near term. "I would expect a correction to technical support around 3,200."

The Bombay Stock Exchange 30 Sensitive Shares Index *stands at 3,453.73, having risen* almost by 7 per cent last week. "I'd be very cautious this side of the election," Mr Villait says.

Elsewhere, Nikko launched an international equity offering *for ACOM*, a Japanese consumer finance company listed on the second section of the Tokyo Stock Exchange.

It is a secondary offering of stock held by major corporate shareholders. The sale will total 4.8m shares, of which 800,000 are to be placed internationally, including a rule *144a private placement in the* US. ACOM shares closed on Friday at Y2,250.

The issue is the second international offering by a Japanese company to be sold through a book-building process. The *first was for shares in* Getz Brothers, which Nikko lead-managed last October. Book-building will begin on March 3 and pricing can take place any time in the following week, depending on market conditions and the shape of the book. Merrill Lynch is joint lead manager.

Meanwhile, the US Securities and Exchange Commission has for the first time granted an exemption from full disclosure under the 1934 Act to a Russian company, AvtoVAZbank, to issue so-called "level one" depositary receipts. This type of DR means the issuer has to meet less stringent disclosure *standards than those typically* associated with formal US stock listings.

The planned issue will not allow the company to raise capital in the US, but the ADRs, backed by existing shares held by the depositary, will be able to be traded there. AvtoVAZbank is a regional bank owned by the country's biggest motor company.

AvtoVAZbank's depositary, Bank of New York, will now file an F-6 registration statement which details the operational side of the ADR programme. The SEC will review this before granting effectiveness of the programme, which is expected to be in the first half of this year.

Conner Middelmann

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey Natl. Treas Serv. 6¾% Nts '04 C$67.50
Do 13⅜% Nts '95 £133.75
Allied Domecq 10⅝% Bd '99 £531.25
Allied Irish Bks Und Var Nts $189.31
Banco Quil. 12¾% Sb Neg Ob. '99 $637.50
Bk Montreal C$0.33
Brad. & Bingley Bldg Scty FRN '96 £159.99
Daiei 6⅜% Bd 2000 Y637500.0
Do 6.4% Bd '02 Y640000.0
Daikin 6.35% Bd '99 Y635000.0
Dobson Park 2.55p
Export-Import Bk Jap. 8⅜% Gtd Bd '01 $418.75
Goldsborough Healthcare 2.3p
Hampson Inds 0.55p
IAWS IR1.265p
Lonrho Fin 6% Gtd Bd '04 £30.0
Mitsubishi Fin FRN 2000 $27616.88
Nationwide Bldg Scty FRN '95 $160.58
Nippon Sanso 6.4% Nts 1997 Y640000.0
Do 6.4% Nts 2000 Y640000.0
Norsk Hydro 9¾% Nts '03 £97.50
Southend Prop. 0.84p
State Bank NSW 12¼% Nts '01 A$122.50
Sweden 9¼% Bd '98 $462.50
Tokai Fin 9⅛% Sb Gtd Bd '01 $456250.0
Do Und FRN Y2306164.0
Toray FRN '97 Y65090.0
Treasury 9¾% '02 £4.875
Yorkshire Water 8.3p

■ **TOMORROW**

Allnatt Lon. Props 10½% 1st Mtg Db 94/99 £5.25
Arjo SKr2.0
Automated Sec. 5% Cv Pf 2.5p
Bankers Inv Tst 0.99p
Bank Scotland Und Var Rate Nts $175.0
Burtonwood Brewery 0.8p
Cable & Wireless 2.83p
Can. & Foreign Sec C$0.75
Cater Allen Eq. Growth Fd Pf 6.5p
Cater Allen Gilt Inc Fd Pf 20p
Chase Manhattan FRN '97 $156.25
Cigna O'seas Fin 13% Un Ln '08 £6.50
City of Oxford Inv Tst 1.2p
CLM Insurance 0.98p
Collateralised Mort.(No 7) A2 FRN'28 £146.16
Do Class A3 £168.90
Do (No 9) A2 FRN '33 £39.89
Do A3 £168.16
Contra-Cyclical Inv Tst 2.25p
Court Cavendish 1.55p
Danae Inv Tst 3.375p
Derby Tst 10.6106p
Ecclesiastical Ins. 13% Db '18 £6.50
Elect. de France 12½% Ln '08 £312.50
Excalibur 11½% Pf 5.75p
Fleming Geared Inc & Assets Inv Tst 0.75p
Fleming Int High Inc Inv Tst 1p
Forsmarks Kraft. 9⅞% Gtd Nts '98 Ecu98.75
Gartmore Brit. Inc & Growth Tst Inc 2.36p
Do Units 2.36p
Gartmore Smaller Co's 5% Pf £1.75
Geared Inc Inv Tst 2p
Gibbon 7% Pf 3.5p
Glasgow Inc Tst 0.95p
Grainger 4.55p
Great Western Fin $0.23
Hamlet 2.1p
Hill Samuel Fin FRN '96 $276.53
Homer Fin (No 2) A FRN '30 £129.75
Do Class B £200.98
Honda 5¼% Bd '98 $131.25
Do 5½% Bd '97 $137.50
Ivory & Sime ISIS Tst Cv Annty 5.5p
Lloyds Bank Prim Cap FRN (Ser 2) $154.69
Do (Ser 3) $272.13
Lon. & Clydeside 3.5p
Lon. & St Lawrence Inv 5% Pf 1.75p
Maple Mort. No 1 A1 FRN '30 £1269.25
Do A2 £1275.08
Do B £1347.05
Mitsubishi Bk Fltg Rate Ptcpn Certs 2000 $1558.60
Morgan Gren. Und Prim Cap FRN $285.95
Nat West Bank Prim Cap FRN C $151.56
Do Und Var Rate Nts $177.50
NHL (1) Dfd Int Mtg Bckd FRN '28 £101.29
Olim Cv Tst 4.7p
Parkland 4.2% Pf 2.1p
Prowting 14½% Pf 7.25p
Quadrant Intcntl $0.017
Ragby Gtd FRN Aug '97 $15700.0
Reliance Security 1.4p
Royal Bk Can. Fltg Rate Db '05 $47.15
RPH 4½% Un Ln 04/09 £2.25
Do 9% Un Ln 99/2004 £4.50
Sanyo FRN '98 Y67083.0
Seiyu 7¼% Cv Bd '96 £36.25
Shelton (M) 1.25p
Slimma 2.6p
Sphere Inv Tst Inc & Res Cap 1.62p
Do Package Units 12.96p
Standard Chart.Sb FRN '96 £78.29
Sumitomo Bk Int Fin Gtd FRN Aug '06 $2881.67
Do Gtd FRN Aug '07 $2881.67
31 Int Gtd FRN '99 £158.73
TMC PIMBS Fifth Fin Iss No 6 Aug '28 £64.15
Do Fourth Fin Iss No 1 Aug '30 £158.55
Do Seventh Fin A Iss No 8 Aug '31 £87.73
Do Class B £172.60
TR City of London Tst 1.31p
Do 20% Non-Cm Pf 7p
Do 6% Cm 1st Pf £2.10
Do 6% Non-Cm 2nd Pf 2.1p
TR Far East Inc Tst 7% Db 97/02 £3.50
TSB Var Rate Nts '03 £166.44
Temple Bar Inv Tst 6% Cv Ln '02 £3.0
Villiers 11% Cv Ln 94/97 5.5p
Wells Fargo FRN 2000 $47.64
Woolwich Bldg Scty Sb FRN '01 £3551.82

■ **WEDNESDAY MARCH 1**

Aberdeen 10.8% Rd '11 £5.40
Aberdeen Tst 1.4p
Ahmanson (HF) $0.22
American Brands $0.50
American General $0.31
Asarco $0.10
Barclays Bank Non-Cm US$ Pf Ser C1 $0.4219
Do Ser C2 $0.1406
Do Units (C1 & C2) $0.5625
Do $ Denom Pf Ser D1 $0.4313
Do Der D2 $0.1437
Do Reg Ser D Pf Units $0.575
Birmingham Mid. Bldg Scty 9⅜% Perm Int Brg £46.875
Coventry Bldg Scty 12⅛% Perm Int Brg £60.625
Dixons 1.8p
East Surrey Water 10% Rd Db 97/99 £5.0
Fleming Claverhouse Inv Tst 1.92p
Fleming Inc & Cap Inv Tst 1p
Do Units 1p
Fleming Merc. Inv Tst 3½% Rd Db 1960/95 £1.75
Fletcher King 0.5p
Ford Motor $0.26
Gold Fields South Africa R0.80
Halifax Bldg Scty 8¾% Perm Int Brg £2187.50
Do 12% Perm Int Brg £3000.0
Ingersoll-Rand $0.185
Kewill Systems 2.5p
London (County of) 2½% Cons £0.625
Do 3% Cons £0.75
Low & Bonar 6% 1st Pf 2.1p
Do 6% 2nd Pf 2.1p
Do 5½% 3rd Pf 1.925p
LPA Inds 0.8p
Lucas 6½% 1st Pf 2.275p
Merchant Retail Pf 5p
Met. Water Board 3% B 1934/2003 £1.50
Mexico 16½% Ln '08 £8.25
Nat Home Loans Sec FRN '95 $1.70
Northumbrian Water 9.4p
Oldham Met Borough Council 11¼% Rd '10 £5.625
OMI Int 0.75p
P & O 3½% Db £1.75
Do 3½% 2nd Db £1.75
Redland Universal Fdg 14¾% Nts '95 A$147.50
River Plate & Gen. Inv Tst 5% Pf £1.75
Sainsbury (J) 8% Irrd Ln £4.0
Do 12¾% Nts '95 £127.50
Schneiders (S) 6% Cm Pf 2.1p
Security Services 4½% Pf 1.575p
Slough Estates Cm Pf 4.125p
Thames Invs (No 2) FRN 1997 $243.85
Throgmorton Pf Inc Tst 2.8p
Transcanada Pipe. 16½% 1st Mtg Pipe Line Bd '07 8.25p
Treasury 8¾% Ln '97 £4.375
Union Carbide $0.1875
USLIFE $0.33
Williamson Tea 10p
Witan Inv 8% Db 96/99 £4.0
Do 6¼% Exch Bd '08 £31.25

■ **THURSDAY MARCH 2**

Assoc Brit. Foods 7.5p
Britannia Bldg Scty 10½% Bd 2000 £1050.0
Brit. Airways 10% Bd '98 £100.0
Lloyds Bank Sb FRN '99 £17.11
Tomkinsons 8p
Trio Hldgs 0.1p

■ **FRIDAY MARCH 3**

Aberforth Smlr Co's 2.5p
Do Split Level Tst Inc 2p
Do Units 2p
Adare Printing IR1.0395p
Bangkok Bank 3¼% Cv Bd $32.50
Bearing Power 1p
Boeing $0.25
Conversion 9% 2000 £4.50
First Technology 2.8p
French (Thomas) 2.175p
Fuji Bank Int Fin Und Sb Gtd Nts $1723.33
GT Japan Inv Tst 0.4p
Gillette $0.25
Goode Durrant 2.5p
Greencore IR6.2p
Halifax Bldg Scty 10⅜% Nts 97 £103.75
Mazda 6.4% Bd 99 Y640000.0
Neotronics Tech 0.85p
New Zealand Inv Tst 1.5p
NT & T 9⅜% Nts '95 $937.50
Second Cons Tst 2.3p
Southern Business 2.45p
Thorn EMI 9.75p
Western Selection 0.25p

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Fenchurch, Bakers Hall, 9, Harp Lane, E.C., 12.00
Kunick, Royal Automobile Club, Pall Mall, S.W., 11.00
Trio Hldgs, Stationers Hall, Ave Maria Lane, E.C., 2.30

BOARD MEETINGS:
Finals:
Burlington
Capita
Crestacare
Dixon Motors
HSBC
London Fin & Inv
Midland Bank
Millgate
Pegasus
Regina
Interims:
Bolton Grp
Community Hospitals
Edinburgh Inv Tst
Essex Furniture
Gartmore Scotland Inv Tst
Go-Ahead Grp
Heritage
Johnson Fry Utilities
Primadona

■ **TOMORROW**

COMPANY MEETINGS:
Bradstock, Hyde Park Hotel, Park Lane, W., 12.00
Grand Metropolitan, Grosvenor House Hotel, Park Lane, W, 11.15
London & Clydeside Hldgs, Kelvin Park Lorne Hotel, Sauchiehall Street, Glasgow, 12.00
Rank Org, The Brewery, Chiswell Street, E.C., 11.00
Throgmorton Pfd Inc Tst, 155, Bishopsgate, E.C., 12.30

BOARD MEETINGS:
Finals:
Admiral
Burford
Capital Shopping Centres
Cantab Pharmaceuticals
Corporate Services
Cowie
General Accident
McDonnell Info Systems
Mediterranean Fd
Midland Ind News
RPS
Scottish Eastern Inv Tst
Sleepy Kids
Sphere Inv Tst
Spring Ram
WPP
Interims:
Blagg
Henderson Eurotrust
Isotron
Murray Inc Tst
River & Mercantile Smaller Co's
Sinclair (Wm)
TR Euro Growth Tst

■ **WEDNESDAY MARCH 1**

COMPANY MEETINGS:
Inoco, St. Clements House, 2-16, Colegate, Norwich, 10.00
Seacon Hldgs, 38, West Ferry Road, E., 12.00
Stakis, Stakis Glasgow Airport Hotel, Glasgow, 12.00

BOARD MEETINGS:
Finals:
Assoc British Ports
BWD Sec
Boddington
Graham
Grafton
HTV
Lasmo
Lex Services
North American Gas Inv Tst
Record Hldgs
Serco
Stat-Plus
Transatlantic Hldgs
Vickers
Yorkshire Food
Interims:
Johnson Fry Euro Utilities
Jos Hldgs
Linx Printing Techs

■ **THURSDAY MARCH 2**

COMPANY MEETINGS:
Care UK, Pannell House, Charter Court, Newcomen Way, Colchester, 11.00
Celltech, Merchant Taylors Hall, 30, Threadneedle Street, E.C., 11.30
Countryside Properties, The Brewery, Chiswell Street, E.C., 12.00
Gresham Telecomputing, Mitchell House, Brooke Avenue, Warsash, Southampton, 10.00
Tomkinsons, St. Mary's Church, Kidderminster, Worcs., 12.00

BOARD MEETINGS:
Finals:
Abbey National
Billam (J)
Life Sciences
Mercury World Mining
Murray Int Tst
Sun Alliance
Wimpey (G)
Interims:
Brierley Invs
Chesterton Int
Ex-Lands
Finelist
Galliford

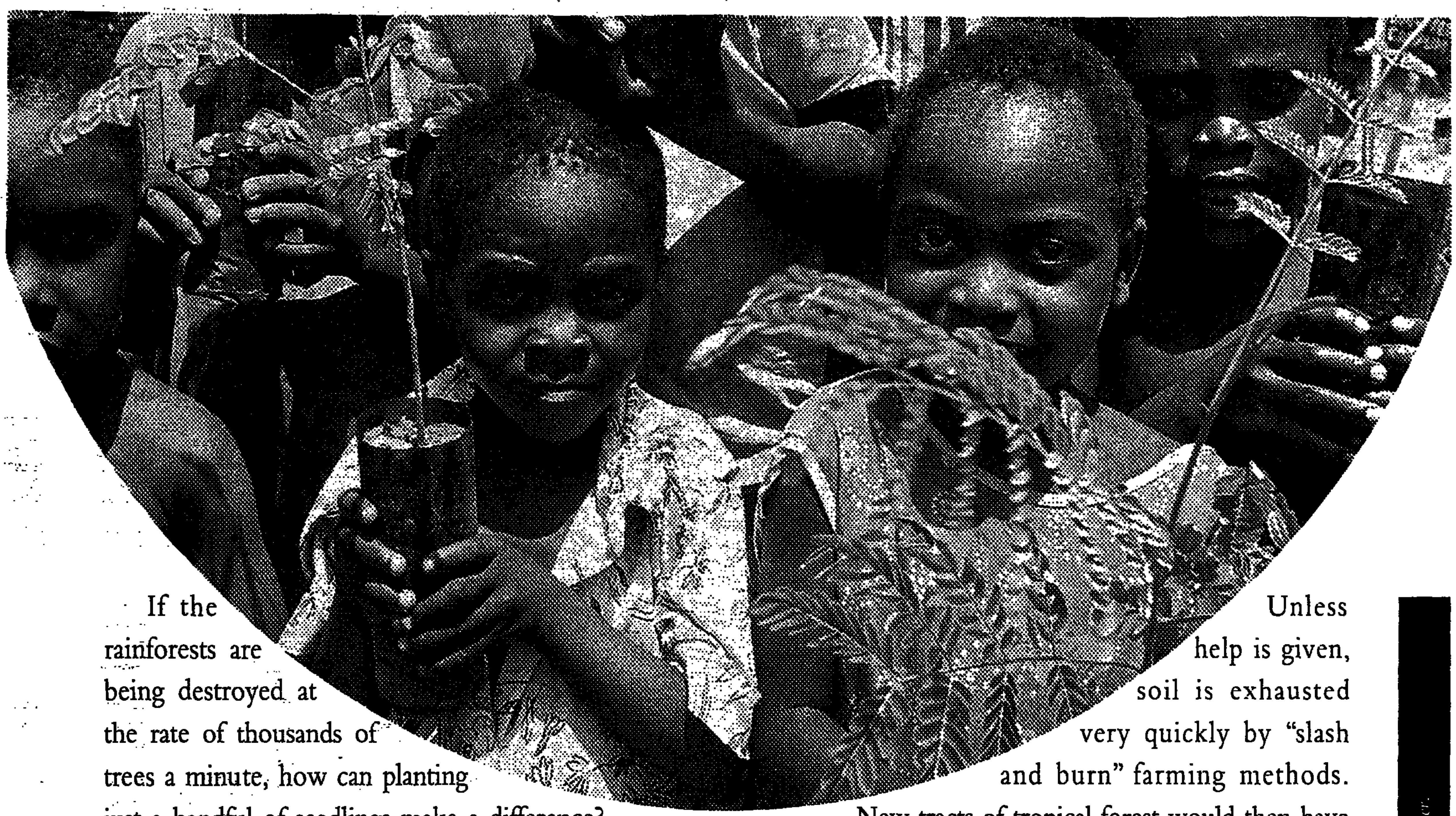
■ **FRIDAY MARCH 3**

COMPANY MEETINGS:
Denby, 25, Copthall Avenue, E.C., 10.30
Richards, Broadford Works, Maberly Street, Aberdeen, 10.00
Finals:
Henlys
Lilleshall
Nightfreight
Interims:
Redrow
Waterman Partnership

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

هكذا من الاصل



If the rainforests are being destroyed at the rate of thousands of trees a minute, how can planting just a handful of seedlings make a difference?

A WWF – World Wide Fund For Nature tree nursery addresses some of the problems facing people that can force them to chop down trees.

Where hunger or poverty is the underlying cause of deforestation, we can provide fruit trees.

The villagers of Mugunga, Zaire, for example, eat papaya and mangoes from WWF trees. And rather than having to sell timber to buy other food, they can now sell the surplus fruit their nursery produces.

Where trees are chopped down for firewood, WWF and the local people can protect them by planting fast-growing varieties to form a renewable fuel source.

This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The *Markhamia lotea* trees planted by WWF and local villages can be harvested within five or six years of planting.

Where trees are chopped down to be used for construction, as in Panama and Pakistan, we supply other species that are fast-growing and easily replaced.

These tree nurseries are just part of the work we do with the people of the tropical forests.

WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods. New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.

WWF World Wide Fund For Nature
(formerly World Wildlife Fund)

International Secretariat, 1196 Gland, Switzerland.

FOR THE SAKE OF THE CHILDREN WE GAVE THEM A NURSERY.

Photo: John Newby. WWF acknowledges with thanks the donation of this space. Advertisement prepared as a public service by Ogilvy & Mather.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 24 / Sch)

BELGIUM/LUXEMBOURG (Feb 24 / Frs.)

CZECH REP (Feb 14 / Koruna)

DENMARK (Feb 24 / Kr)

FINLAND (Feb 24 / Mkk)

FRANCE (Feb 24 / Frs.)

GERMANY (Feb 24 / Dm.)

GREECE (Feb 24 / Drachma)

ITALY (Feb 24 / Lire)

NETHERLANDS (Feb 24 / Fls.)

NORWAY (Feb 24 / Kroner)

POLAND (Feb 23 / Zloty)

PORTUGAL (Feb 24 / Escudo)

SPAIN (Feb 24 / Pts.)

SWEDEN (Feb 24 / Kronor)

SWITZERLAND (Feb 24 / Frs.)

TURKEY (Feb 24 / TK Lira)

PACIFIC

JAPAN (Feb 24 / Yen)

HONG KONG (Feb 24 / H.K.$)

INDONESIA (Feb 24 / Rupiah)

MALAYSIA (Feb 24 / MYR)

NEW ZEALAND (Feb 24 / NZ $)

SINGAPORE (Feb 24 / S$)

AUSTRALIA (Feb 24 / Aus$)

SOUTH KOREA (Feb 24 / Won)

TAIWAN (Feb 24 / TW $)

THAILAND (Feb 24 / Baht)

NORTH AMERICA

CANADA

TORONTO (Feb 24 / Can $) 4 pm close

MONTREAL (Feb 24 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Feb 24 / Rand)

INDICES

	Feb 24	Feb 23	Feb 22	1994/5 High		Low	
Argentina							
General (29/12/77)	12615.83	13530.18	12271.56	25470.40	18/2/94	12185.81	16/2/95
Australia							
All Ordinaries(1/1/80)	1911.1	1893.5	1879.6	2340.60	3/2/94	1823.30	8/2/95
All Mining(1/1/80)	850.1	840.3	836.4	1136.10	3/2/94	795.30	8/2/95
Austria							
Credit Aktien(30/12/84)	371.73	370.75	371.28	460.66	2/2/94	361.34	3/2/95
Traded Index(2/1/91)	1009.10	1008.50	1007.79	1222.25	1/2/94	968.39	3/2/95
Belgium							
BEL20 (1/1/91)	1337.53	1336.41	1331.03	1642.85	9/2/94	1331.83	22/2/95
Brazil							
Bovespa (29/12/83)	32709.0	32174.0	28724.0	58110.00	13/9/94	3800.90	3/1/94
Canada							
Metals Mins♦(1975)	3963.82	3967.26	3955.74	4328.07	18/1/95	3288.06	20/4/94
Composite♦ (1975)	4120.10	4143.10	4121.10	4609.90	23/3/94	3858.90	24/6/94
Portfolio§§ (4/1/83)	2038.24	2053.81	2041.21	2182.69	1/2/94	1865.49	28/6/94
Chile							
IPGA Gen (31/12/80)	5374.5	5287.5	5215.7	5754.40	21/11/94	3801.20	4/4/94
Denmark							
CopenhagenSE(3/1/83)	352.74	352.07	350.52	415.79	2/2/94	335.68	20/12/94
Finland							
HEX General(28/12/90)	1763.9	1737.1	1735.3	1972.00	4/2/94	1601.10	3/1/94
France							
SBF 250 (31/12/90)	1189.51	1208.51	1196.99	1585.20	2/2/94	1178.82	23/1/95
CAC 40(31/12/87)	1805.74	1827.01	1804.37	2355.93	2/2/94	1772.84	23/1/95
Germany							
FAZ Aktien(31/12/58)	787.37	786.90	781.21	859.27	18/5/94	742.04	5/10/94
Commerzbank(1/12/53)	2241.8	2240.3	2225.2	2485.59	2/5/94	2116.38	5/10/94
DAX (30/12/87)‡	2118.64	2118.24	2093.16	2271.11	16/5/94	1980.59	7/10/94
Greece							
Athens SE(31/12/80)	823.62	819.41	820.01	1194.58	18/1/94	788.22	8/2/95
Hong Kong							
Hang Seng(31/7/64)	8218.95	7976.41	7909.27	12201.09	4/1/94	6967.93	23/1/95
India							
BSE Sens.(1979)	3453.73	3371.23	3233.31	4628.57	12/9/94	3233.31	22/2/95
Indonesia							
Jakarta Comp.(10/8/82)	454.69	454.40	454.88	612.89	5/1/94	432.96	25/1/95
Ireland							
ISEQ Overall(4/1/88)	1894.59	1886.39	1876.80	2082.16	20/1/94	1694.14	1/7/94
Italy							
Banca Comm Ital (1972)	627.51	635.32	632.51	817.17	10/5/94	581.64	13/12/94
MIB General (2/1/95)	992.0	1004.0	1000.0	1318.00	10/5/94	979.00	10/1/95
Japan							
Nikkei 225 (16/5/49)	17472.94	17830.02	18108.65	21552.81	13/6/94	17369.74	4/1/94
Nikkei 300 (1/10/82)	251.93	254.47	257.62	311.71	13/6/94	251.93	24/2/95
Topix (4/1/68)	1370.96	1385.00	1401.71	1712.73	13/6/94	1370.96	24/2/95
2nd Section (4/1/68)	1784.70	1805.47	1813.69	2542.65	6/7/94	1784.70	24/2/95
Malaysia							
KLSE Comp.(4/4/86)	970.45	949.46	941.07	1314.46	5/1/94	940.87	24/1/95
Mexico							
IPC (Nov 1978)	(c)	1611.73	1708.28	2881.17	8/2/94	1611.73	23/2/95
Netherland							
CBS TtlRtnGen(End 83)	440.6	442.8	440.9	454.90	31/1/94	408.30	21/6/94
CBS All Shr (End 83)	276.4	277.8	276.5	294.80	31/1/94	267.90	21/6/94
New Zealand							
Cap. 40 (1/7/86)	2000.74	1983.73	1984.57	2430.84	3/2/94	1878.08	12/12/94
Norway							
Oslo SE(Ind)(2/1/83)	1108.74	1105.85	1089.54	1211.38	28/2/94	980.91	21/6/94
Philippines							
Manila Comp (2/1/85)	2587.91	2598.23	2598.14	3306.37	4/1/94	2374.86	24/1/95
Portugal							
BTA (1977)	2753.1	2748.3	2745.2	3228.80	18/2/94	2612.80	20/6/94
Singapore							
SES All-S'pore(2/4/75)	510.58	508.04	504.60	641.61	4/1/94	472.90	23/1/95
South Africa							
JSE Gold (28/9/78)	1593.7♥	1578.8	1587.9	2384.00	7/9/94	1485.20	30/1/95
JSE Indl. (28/9/78)	6355.9♥	6310.9	6288.0	6894.40	30/12/94	5449.00	19/1/94
South Korea							
KoreaCompEx(4/1/80)**	892.89	907.86	919.48	1138.75	8/11/94	855.37	2/4/94
Spain							
Madrid SE (30/12/85)	281.19	282.99	280.62	358.31	31/1/94	276.95	11/1/95
Sweden							
AffarsvarldnGen (1/2/37)	1529.2	1525.9	1528.1	1803.90	31/1/94	1334.70	6/7/94
Switzerland							
Swiss Bk Ind (31/12/58)	1255.06	1258.9	1248.26	1423.34	31/1/94	1138.72	27/10/94
SBC General (1/4/87)	922.73	925.03	917.45	1093.29	31/1/94	876.57	27/10/94
Taiwan							
WeightedPr.(30/6/66)**	6596.07	6553.95	6603.88	7191.13	1/11/94	5194.63	19/3/94
Thailand							
Bangkok SET (30/4/75)	1294.19	1277.14	1285.95	1753.73	4/1/94	1191.26	23/1/95
Turkey							
Istanbul Cmp.(Jan 1986)	29730.0	29488.8	29674.4	29728.80	24/2/95	12880.70	24/3/94
WORLD							
MS Capital Int (1/1/70)§	616.7*	619.6	616.7	649.98	2/11/94	591.60	1/11/94
CROSS-BORDER							
Eurotrack 100(26/10/90)	1303.66	1311.31	1305.02	1540.19	31/1/94	1288.48	5/10/94
Euro Top-100 (26/6/90)	1164.03	1168.73	1160.05	1311.01	2/2/94	1139.49	5/10/94
JCapalDrgns (31/12/88)	(u)	290.97	289.17	395.19	5/1/94	281.46	23/1/95
Barings Emerg.(7/1/92)	133.96	130.60	130.27	191.79	26/9/94	130.27	22/2/95

US INDICES

Dow Jones	Feb 24	Feb 23	Feb 22	1994/5 High	Low	Since compilation High	Low
Industrials	4011.74	4003.33	3973.05	4011.74 (24/2/95)	3593.35 (4/4/94)	4011.74 (24/2/95)	41.22 (2/7/32)
Home Bonds	97.23	97.22	96.84	105.61 (21/1/94)	93.58 (30/12/94)	169.77 (18/10/93)	54.99 (1/10/81)
Transport	1594.99	1596.85	1577.52	1862.29 (2/2/94)	1371.89 (13/12/94)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	194.77	194.04	195.69	227.86 (3/1/94)	173.94 (22/11/94)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 4033.61 (4034.62) Low 3974.06 (3979.45) (Theoretical♦)
Day's high 4013.09 (4020.49) Low 3990.86 (3971.71) (Actual♦)

Standard and Poors	Feb 24	Feb 23	Feb 22	1994/5 High	Low	Since compilation High	Low
Composite ‡	487.85	486.91	485.07	487.85 (24/2/95)	438.92 (4/4/94)	487.85 (24/2/95)	4.40 (1/6/32)
Industrials♥	575.92	575.11	573.64	575.92 (24/2/95)	510.05 (21/4/94)	575.92 (24/2/95)	3.62 (21/6/32)
Financial	48.46	48.24	45.86	48.94 (14/6/94)	39.87 (22/11/94)	48.49 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	264.86	264.24	263.04	267.71 (2/2/94)	243.14 (4/4/94)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	450.67	449.35	448.58	487.89 (2/2/94)	420.23 (13/12/94)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	791.06	791.35	787.93	803.93 (18/3/94)	693.79 (24/6/94)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Feb 17	Feb 10	Feb 3	Year ago
Dow Jones Ind. Div. Yield	2.72	2.72	2.73	2.59
	Feb 22	Feb 15	Feb 8	Year ago
S & P Ind. Div. yield	2.36	2.36	2.38	2.36
S & P Ind. P/E ratio	19.60	19.57	19.38	29.09

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Telefonos	5,822,400	28¼	-¾
Motorola	4,789,200	55¾	-¾
Glaxo	4,361,700	20	-⅛
Compaq	3,964,100	34⅜	+½
RJR Nabisco	3,887,300	5⅝	—
Chrysler	3,420,300	44⅛	—
EMC Corp	3,281,500	16⅝	-⅛
Tyco Intl	3,108,700	51½	+⅜
Archer Dan	2,865,600	18⅝	+⅛
Micron	2,672,200	58⅝	-¼

■ TRADING ACTIVITY

● Volume (million)

	Feb 24	Feb 23	Feb 22
New York SE	302.854	395.931	339.127
Amex	15.854	22.184	14.242
NASDAQ	(u)	333.722	276.877
NYSE			
Issues Traded	2,989	2,983	2,945
Rises	1,144	1,443	1,230
Falls	1,039	786	934
Unchanged	786	734	781
New Highs	63	100	62
New Lows	50	34	48

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40							
Feb	1816.0	1803.0	-24.0	1822.0	1803.0	25,126	25,916
Mar	1826.0	1810.5	-24.0	1828.5	1810.0	8,807	27,811
■ DAX							
Mar	2128.0	2125.5	-6.50	2133.0	2117.5	12,064	
Jun	2147.5	2145.5	-11.0	2151.5	2138.5	351	
■ OMX							
Feb	-	-	-	-	-	-	-
Mar	1174.50	1175.75	+0.75	1177.00	1170.00	3,107	20,012
■ SOFFEX							
Mar	2640.0	2629.5	-8.00	2640.0	2624.0	3,338	13,800
Apr	2638.0	2638.0	-8.00	2638.0	2636.0	1	691
■ S&P 500							
Mar	488.80	488.70	-	489.00	486.75	90,895	197,479
Jun	492.15	492.70	+0.10	492.60	490.70	5,297	25,881
■ Nikkei 225							
Mar	17860.0	17580.0	-250	17910.0	17530.0	32,767	1165078
Jun	17980.0	17650.0	-270	17980.0	17580.0	14,184	53,483

Open interest figures for previous day.

** Sat Jan 15: Taiwan Weighted Price 6067.12; Korea Comp Ex 888.85. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7, JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Feb 24 - 2117.59 -8.65.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, February 24, 1995.

	Stocks Traded	Closing Prices	Change on day
Sumitomo Const	15.7m	738	-32
Nomura Sec	6.1m	1,710	-30
Keiyo Bank	5.8m	603	-3
Nippon Steel	5.3m	340	-4
Sakai Ovex	4.5m	695	-73
Penta Ocean	4.4m	768	-30
Fudo Const	3.3m	1,060	-50
Hitachi	2.9m	836	
NKK Corp	2.8m	255	+5
NEC Corp	2.7m	915	-17

مكتبة الاهل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Feb 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.3857	-0.091	697 - 017	16.5250	16.3851	16.3633	0.9	16.3495	1.1	-	-	106.8
Belgium	(BFr)	48.0063	-0.2735	943 - 222	48.2410	47.9610	47.9583	1.2	47.8433	1.4	47.3033	1.5	108.7
Denmark	(DKr)	9.2357	-0.0269	317 - 396	9.2668	9.2230	9.231	0.6	9.2194	0.7	9.1595	0.8	107.5
Finland	(FM)	7.2006	-0.0159	945 - 066	7.2310	7.1830	-	-	-	-	-	-	85.6
France	(FFr)	8.1864	+0.0024	838 - 890	8.2040	8.1610	8.1798	1.0	8.169	0.8	8.1054	1.0	107.8
Germany	(DM)	2.3322	-0.0115	313 - 330	2.3432	2.3300	2.3298	1.5	2.3232	1.5	2.2896	1.8	111.3
Greece	(Dr)	369.155	-1.573	871 - 438	371.717	366.992	-	-	-	-	-	-	69.3
Ireland	(I£)	1.0031	-0.0016	027 - 035	1.0061	1.0016	1.0025	0.7	1.0018	0.5	1.0002	0.3	97.3
Italy	(L)	2602.42	+24.63	091 - 394	2603.94	2578.93	2608.22	-2.7	2620.32	-2.8	2675.02	-2.8	70.4
Luxembourg	(LFr)	48.0063	-0.2735	943 - 222	48.2410	47.9610	47.9583	1.2	47.8433	1.4	47.3033	1.5	108.7
Netherlands	(Fl)	2.6134	-0.0149	123 - 145	2.6274	2.6125	2.6102	1.4	2.6031	1.6	2.5642	1.9	106.6
Norway	(NKr)	10.2888	-0.034	847 - 929	10.3222	10.2676	10.2875	0.2	10.2857	0.1	10.2734	0.1	98.8
Portugal	(Es)	241.986	-0.933	877 - 096	242.911	240.552	242.586	-3.0	244.236	-3.7	-	-	96.5
Spain	(Pta)	205.095	-0.075	990 - 200	206.074	204.794	205.44	-2.0	206.17	-2.1	209.885	-2.3	79.1
Sweden	(SKr)	11.5314	-0.0342	240 - 388	11.5868	11.5083	11.5368	-0.5	11.5729	-1.4	11.6584	-1.1	81.0
Switzerland	(SFr)	1.9822	-0.0113	811 - 832	1.9956	1.9811	1.9777	2.7	1.9685	2.8	1.921	3.1	109.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	87.1
Ecu	-	1.2488	+0.0030	484 - 492	1.2519	1.2466	1.2482	0.6	1.247	0.6	1.2393	0.8	-
SDR†	-	0.938270	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5823	-0.0089	820 - 826	1.5955	1.5796	-	-	-	-	-	-	-
Brazil	(Cr)	1.3449	+0.0001	439 - 459	1.3510	1.3439	-	-	-	-	-	-	-
Canada	(C$)	2.2055	-0.0139	048 - 062	2.2239	2.2035	2.2088	-1.8	2.216	-1.9	2.2275	-1.0	82.1
Mexico	(New Peso)	9.0213	+0.0894	806 - 620	9.0528	8.0447	-	-	-	-	-	-	-
USA	($)	1.5813	-0.0102	811 - 815	1.5960	1.5789	1.5807	0.5	1.5794	0.5	1.5678	0.9	94.1
Pacific/Middle East/Africa													
Australia	(A$)	2.1449	-0.0147	439 - 459	2.1459	2.1431	2.1486	-1.0	2.1533	-1.6	2.1768	-1.5	84.6
Hong Kong	(HK$)	12.2261	-0.0787	227 - 274	12.3393	12.2155	12.2241	0.1	12.2506	-0.8	12.1503	0.6	-
India	(Rs)	49.6370	-0.3007	149 - 591	50.0740	49.6090	-	-	-	-	-	-	-
Israel	(Shk)	4.7414	-0.0222	365 - 462	4.8205	4.7365	-	-	-	-	-	-	-
Japan	(Y)	153.813	-0.295	746 - 880	154.450	153.350	153.283	4.1	152.148	4.3	146.153	5.0	150.2
Malaysia	(M$)	4.0396	-0.0257	373 - 399	4.0733	4.0359	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5007	-0.014	990 - 024	2.5024	2.4980	2.5047	-1.9	2.5137	-2.1	2.5429	-1.7	97.3
Philippines	(Peso)	40.7501	+0.3272	659 - 343	41.0490	40.6659	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9309	-0.0376	298 - 320	5.9853	5.9260	-	-	-	-	-	-	-
Singapore	(S$)	2.2942	-0.018	931 - 952	2.3179	2.2929	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.7132	-0.022	109 - 155	5.7856	5.7010	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.1276	-0.0027	110 - 441	6.2415	6.1350	-	-	-	-	-	-	-
South Korea	(Won)	1244.09	-10.69	385 - 432	1258.28	1243.07	-	-	-	-	-	-	-
Taiwan	(T$)	41.6922	-0.2585	817 - 026	42.0690	41.6604	-	-	-	-	-	-	-
Thailand	(Bt)	39.4534	-0.2374	326 - 742	39.7860	39.4326	-	-	-	-	-	-	-

†SDR rates for Feb 23. Corrected rate for 22nd Feb: 0.938086. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.3685	+0.009	660 - 710	10.3710	10.3215	10.358	1.2	10.336	1.3	10.2175	1.5	106.3
Belgium	(BFr)	30.3600	+0.0217	550 - 650	30.4000	30.2150	30.35	0.4	30.3175	0.6	30.23	0.4	108.1
Denmark	(DKr)	5.8406	+0.0191	388 - 423	5.8468	5.8006	5.8394	0.3	5.8361	0.2	5.8456	-0.1	106.2
Finland	(FM)	4.5536	+0.019	503 - 568	4.5568	4.5205	4.5509	0.7	4.5466	0.6	4.5361	0.4	84.5
France	(FFr)	5.1770	+0.0345	760 - 780	5.1802	5.1275	5.1752	0.4	5.174	0.2	5.1775	0.0	107.4
Germany	(DM)	1.4749	+0.0022	745 - 752	1.4775	1.4665	1.4737	1.0	1.471	1.1	1.4609	0.9	110.2
Greece	(Dr)	233.450	+0.5	300 - 600	233.800	231.600	235.85	-12.3	240.2	-11.6	258.45	-10.7	68.5
Ireland	(I£)	1.5764	-0.0077	760 - 768	1.5860	1.5738	1.577	-0.4	1.5758	0.2	1.5732	0.2	-
Italy	(L)	1645.75	+25.97	500 - 650	1646.50	1616.75	1649.5	-2.7	1658.55	-3.1	1705.25	-3.6	70.6
Luxembourg	(LFr)	30.3600	+0.0217	550 - 650	30.4000	30.2150	30.35	0.4	30.3175	0.6	30.23	0.4	108.1
Netherlands	(Fl)	1.6527	+0.0012	522 - 532	1.6580	1.6448	1.6515	0.9	1.6488	1.0	1.639	0.9	107.8
Norway	(NKr)	6.5066	+0.0202	048 - 083	6.5136	6.4603	6.5008	1.1	6.4951	0.7	6.4641	0.7	97.4
Portugal	(Es)	153.030	+0.39	980 - 080	153.200	151.800	153.425	-3.1	154.355	-3.5	158.605	-3.6	96.3
Spain	(Pta)	129.700	+0.78	650 - 750	129.870	129.000	129.945	-2.3	130.505	-2.5	133.5	-2.9	78.8
Sweden	(SKr)	7.2924	+0.0251	886 - 961	7.2961	7.2549	7.3028	-1.7	7.3244	-1.8	7.4159	-1.7	82.0
Switzerland	(SFr)	1.2535	+0.0009	530 - 540	1.2565	1.2472	1.2511	2.2	1.2464	2.3	1.226	2.2	108.2
UK	(£)	1.5813	-0.0102	811 - 815	1.5960	1.5789	1.5807	0.5	1.5794	0.5	1.5678	0.9	86.6
Ecu	-	1.2663	+0.0014	660 - 665	1.2786	1.2653	1.2786	0.0	1.2787	0.0	1.2808	-0.2	-
SDR†	-	1.49213	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0007	+0.0008	006 - 007	1.0007	1.0006	-	-	-	-	-	-	-
Brazil	(Cr)	0.8505	+0.0055	500 - 510	0.8510	0.8490	-	-	-	-	-	-	-
Canada	(C$)	1.3948	+0.0002	945 - 950	1.3965	1.3919	1.3975	-2.3	1.4032	-2.4	1.4188	-1.7	81.0
Mexico	(New Peso)	5.7050	+0.08	800 - 300	5.7300	5.6800	5.7058	-0.2	5.7062	-0.1	5.7076	0.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	94.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3563	-0.0006	559 - 569	1.3569	1.3445	1.3581	-1.6	1.3627	-1.9	1.3875	-2.3	85.0
Hong Kong	(HK$)	7.7310	-0.0002	305 - 315	7.7316	7.7310	7.7321	-0.2	7.7332	-0.1	7.738	-0.1	-
India	(Rs)	31.3900	+0.0112	800 - 000	31.4500	31.3800	31.47	-3.1	31.715	-4.1	-	-	-
Israel	(Shk)	2.9984	+0.0051	957 - 011	3.0350	2.9889	-	-	-	-	-	-	-
Japan	(Y)	97.2700	+0.435	400 - 000	97.4000	96.4000	96.97	3.7	96.33	3.9	93.065	4.3	151.2
Malaysia	(M$)	2.5540	+0.0001	535 - 545	2.5545	2.5505	2.552	0.8	2.5475	1.0	2.5315	0.9	-
New Zealand	(NZ$)	1.5813	+0.0013	805 - 823	1.5823	1.5679	1.584	-2.0	1.5916	-2.6	1.6183	-2.3	-
Philippines	(Peso)	25.7700	+0.37	200 - 200	25.8200	25.7200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	+0.0003	504 - 509	3.7509	3.7504	3.7533	-0.8	3.7566	-0.6	3.7692	-0.5	-
Singapore	(S$)	1.4508	-0.0021	503 - 513	1.4525	1.4485	1.4459	4.1	1.4405	2.8	1.4171	2.3	-
S Africa (Com.)	(R)	3.6130	+0.0092	120 - 140	3.6175	3.5880	3.6265	-4.5	3.6612	-5.3	3.8306	-6.0	-
S Africa (Fin.)	(R)	3.8750	+0.023	650 - 850	3.9250	3.8500	3.9025	-8.5	3.9525	-8.0	4.185	-8.0	-
South Korea	(Won)	786.750	-1.7	700 - 800	787.500	786.700	789.75	-4.6	793.25	-3.3	811.75	-3.2	-
Taiwan	(T$)	26.3658	+0.0058	625 - 690	26.3740	26.3625	26.3858	-0.9	26.4258	-0.9	-	-	-
Thailand	(Bt)	24.9500	+0.01	400 - 600	24.9600	24.9300	24.9625	-0.6	24.9785	-0.4	25.0025	-0.2	-

†SDR rate for Feb 23. Corrected rate for 22nd Feb: 1.49298. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 23. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

February 24	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	6	5 5/8	5 5/8	5 7/8	6 3/8	7.40	4.50	-
week ago	4 7/8	5 5/8	5 3/4	5 7/8	6 3/8	7.40	4.50	-
France	5 13/16	6 1/8	5 7/8	6 1/4	6 3/4	5.00	-	6.40
week ago	5 13/16	5 7/8	5 15/16	6 1/8	6 13/16	5.00	-	6.40
Germany	4.88	4.85	5.05	5.23	5.68	6.00	4.50	4.85
week ago	4.88	4.85	5.05	5.20	5.65	6.00	4.50	4.85
Ireland	5 1/4	5 7/8	6 1/4	6 13/16	7 3/8	-	-	6.25
week ago	5 1/4	5 7/8	6 1/8	6 5/8	7 1/8	-	-	6.25
Italy	8 1/4	9 1/8	9 3/8	10	10 1/4	-	7.50	8.35
week ago	8 3/4	8 7/8	9	9 1/2	10 1/4	-	7.50	8.20
Netherlands	4.84	5.02	5.13	5.33	5.77	-	5.25	-
week ago	4.84	5.02	5.10	5.27	5.74	-	5.25	-
Switzerland	3 3/8	3 9/16	3 7/8	4 1/8	4 1/2	6.625	3.50	-
week ago	3 1/4	3 9/16	3 7/8	4 1/8	4 1/2	6.625	3.50	-
US	5 7/8	6	6 1/8	6 3/8	6 7/8	-	5.25	-
week ago	6 1/8	6	6 1/8	6 1/4	6 5/8	-	5.25	-
Japan	2 1/8	2 1/4	2 1/4	2 3/8	2 1/2	-	1.75	-
week ago	2 1/8	2 1/4	2 1/4	2 3/8	2 1/2	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	6 1/8	6 1/4	6 1/2	6 7/8	-	-	-
week ago	-	6 1/8	6 1/4	6 1/2	7	-	-	-
US Dollar CDs	-	5.92	5.99	6.17	6.57	-	-	-
week ago	-	5.92	6.03	6.26	6.77	-	-	-
SDR Linked Ds	-	4 5/8	4 7/8	5 1/8	5 3/8	-	-	-
week ago	-	4 5/8	4.438	4.688	5.188	-	-	-

ECU Linked Ds mid rates: 1 mth: 5 7/8; 3 mths: 6 1/4; 6 mths: 6 5/8; 1 year: 6 7/8. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6 - 5 7/8	5 7/8 - 5 3/4	5 5/8 - 5 1/2	5 5/8 - 5 1/2	5 7/8 - 5 3/4	6 3/8 - 6 1/4
Danish Krone	5 3/4 - 5 1/4	5 3/4 - 5 1/2	5 3/4 - 5 1/2	6 - 5 13/16	6 5/16 - 6 1/16	6 13/16 - 6 5/8
D-Mark	4 7/8 - 4 3/4	4 15/16 - 4 13/16	5 - 4 7/8	5 1/16 - 4 15/16	5 1/4 - 5 1/8	5 3/4 - 5 5/8
Dutch Guilder	5 - 4 13/16	5 1/16 - 4 7/8	5 1/16 - 4 15/16	5 1/8 - 5 1/16	5 5/16 - 5 3/16	5 13/16 - 5 [illegible]
French Franc	5 3/8 - 5 1/4	5 7/16 - 5 5/16	5 5/8 - 5 1/2	5 7/8 - 5 3/4	6 1/4 - 6 1/8	6 3/4 - 6 5/8
Portuguese Esc.	8 15/16 - 8 5/8	9 - 8 3/4	9 3/16 - 9 1/8	10 1/8 - 10	10 3/4 - 10 1/2	11 1/4 - 10 [illegible]
Spanish Peseta	8 3/8 - 8 1/16	8 3/16 - 8 1/16	8 7/16 - 8 5/16	8 3/4 - 8 5/8	9 1/4 - 9 1/8	10 1/16 - 9 [illegible]
Sterling	6 5/8 - 6 3/8	6 1/2 - 6 3/8	6 13/16 - 6 11/16	6 15/16 - 6 13/16	7 1/8 - 7 1/16	7 13/16 - 7 11/16
Swiss Franc	3 3/8 - 3 1/4	3 1/2 - 3 3/8	3 9/16 - 3 7/16	3 13/16 - 3 11/16	4 1/16 - 3 15/16	4 7/16 - 4 5/16
Can. Dollar	7 13/16 - 7 3/4	8 1/8 - 7 7/8	8 1/16 - 7 15/16	8 1/4 - 8 1/8	8 5/16 - 8 3/16	8 7/16 - 8 5/16
US Dollar	5 15/16 - 5 13/16	6 1/8 - 6	6 1/16 - 5 15/16	6 3/16 - 6 1/16	6 7/16 - 6 5/16	6 15/16 - 6 13/16
Italian Lira	9 - 7 1/2	8 7/8 - 8 3/4	9 1/16 - 8 15/16	9 3/16 - 9 1/16	9 1/2 - 9 1/4	10 5/8 - 10 [illegible]
Yen	2 7/32 - 2 5/32	2 1/4 - 2 1/8	2 1/4 - 2 1/8	2 9/32 - 2 7/32	2 3/8 - 2 [illegible]	2 13/16 - 2 11/16
Asian $Sing	2 1/8 - 2	1 7/8 - 1 3/4	2 1/4 - 2 1/8	2 3/4 - 2 5/8	3 3/8 - 3 1/4	4 1/16 - 3 15/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.75	93.75	-	93.76	93.72	103,824	384,451
Jun	93.40	93.43	+0.03	93.48	93.36	299,343	449,999
Sep	93.12	93.13	+0.01	93.21	93.06	302,685	303,776

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.27	94.26	-0.02	94.28	94.24	1,764	4,195
Jun	94.00	93.97	+0.01	94.02	93.93	2,250	11,827
Sep	93.70	93.67	-0.01	93.74	93.61	565	6,455

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 24		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.24	17.05	4.857	2.089	5420	5.443	21.43	503.9	427.2	24.02	4.128	2.083	4.593	3.293	320.3	2.596
Denmark	(DKr)	51.98	10	8.864	2.525	1.086	2818	2.829	11.14	261.9	222.1	12.49	2.146	1.083	2.388	1.712	166.5	1.351
France	(FFr)	58.65	11.28	10	2.849	1.225	3179	3.192	12.57	295.5	250.5	14.09	2.421	1.222	2.694	1.931	187.9	1.525
Germany	(DM)	20.59	3.960	3.510	1	0.430	1116	1.120	4.413	103.7	87.95	4.944	0.850	0.429	0.946	0.678	65.95	0.535
Ireland	(I£)	47.87	9.207	8.162	2.325	1	2594	2.605	10.26	241.2	204.5	11.50	1.976	0.997	2.198	1.576	153.3	1.244
Italy	(L)	1.845	0.355	0.315	0.090	0.039	100.	0.100	0.395	9.297	7.882	0.443	0.076	0.038	0.085	0.061	5.911	0.048
Netherlands	(Fl)	18.37	3.534	3.133	0.892	0.384	995.8	1	3.938	92.58	78.49	4.413	0.759	0.383	0.844	0.605	58.86	0.478
Norway	(NKr)	46.66	8.975	7.955	2.266	0.975	2529	2.539	10	235.1	199.3	11.21	1.926	0.972	2.143	1.536	149.5	1.213
Portugal	(Es)	19.85	3.818	3.384	0.964	0.415	1076	1.080	4.254	100.	84.79	4.766	0.819	0.413	0.912	0.654	63.58	0.516
Spain	(Pta)	23.41	4.503	3.991	1.137	0.489	1269	1.274	5.017	117.9	100.	5.622	0.966	0.488	1.075	0.771	74.99	0.608
Sweden	(SKr)	41.64	8.010	7.100	2.023	0.870	2257	2.266	8.925	209.8	177.9	10	1.719	0.867	1.912	1.371	133.4	1.082
Switzerland	(SFr)	24.22	4.659	4.130	1.177	0.506	1313	1.318	5.192	122.0	103.5	5.817	1	0.505	1.113	0.798	77.60	0.630
UK	(£)	48.01	9.235	8.186	2.332	1.003	2602	2.613	10.29	241.9	205.1	11.53	1.982	1	2.205	1.581	153.8	1.248
Canada	(C$)	21.77	4.188	3.712	1.058	0.455	1180	1.185	4.667	109.7	93.02	5.229	0.899	0.454	1	0.717	69.75	0.566
US	($)	30.37	5.841	5.178	1.475	0.634	1646	1.653	6.509	153.0	129.7	7.293	1.254	0.633	1.395	1	97.28	0.789
Japan	(Y)	31.22	6.005	5.322	1.516	0.652	1692	1.699	6.691	157.3	133.4	7.497	1.289	0.650	1.434	1.028	100.	0.811
Ecu		38.47	7.400	6.559	1.869	0.804	2085	2.094	8.245	193.8	164.3	9.239	1.588	0.801	1.767	1.267	123.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.6817	0.6844	+0.0025	0.6854	0.6773	29,885	94,324
Jun	0.6830	0.6864	+0.0024	0.6873	0.6792	2,441	9,261
Sep	0.6868	0.6862	+0.0025	0.6868	0.6820	22	631

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.8019	0.8042	+0.0024	0.8055	0.7967	20,909	44,874
Jun	0.8069	0.8091	+0.0024	0.8100	0.8017	1,065	4,264
Sep	-	0.8137	+0.0025	0.8135	0.8075	59	147

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.0352	1.0326	-0.0029	1.0366	1.0262	18,912	79,654
Jun	1.0472	1.0437	-0.0029	1.0490	1.0395	992	10,539
Sep	-	1.0546	-0.0029	1.0545	1.0540	82	744

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.5950	1.5874	-0.0070	1.5950	1.5796	11,249	45,876
Jun	1.5958	1.5850	-0.0072	1.5960	1.5770	476	1,923
Sep	-	1.5814	-0.0072	1.5800	1.5730	2	12

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.500	8.55	8.51	8.58	-	0.04	0.21
1.525	6.12	6.26	6.47	-	0.21	0.52
1.550	3.73	4.18	4.56	0.07	0.62	1.07
1.575	1.74	2.58	2.97	0.52	1.39	1.95
1.600	0.51	1.33	1.83	1.79	2.82	3.18
1.625	0.07	0.61	1.03	3.80	4.39	4.84

Previous day's vol., Calls 20,338 Puts 27,406 . Prev. day's open int., Calls 227,496 Puts 347,513

■ Pound in New York

Feb 24	Close	Prev. close
£ spot	1.5885	1.5955
1 mth	1.5878	1.5948
3 mth	1.5865	1.5954
1 yr	1.5738	1.5885

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

FT GOLD MINES INDEX

	Feb 24	% chg since 30/12/94	Feb 23	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1757.22	-11.1	1768.42	43.03	100.00	2.14	2337.90	1637.91
■ Regional Indices								
Africa (16)	2712.75	-15.0	2698.53	13.95	32.42	4.97	3711.87	2304.45
Australasia (7)	2000.80	-18.5	1979.15	5.14	11.94	0.82	2951.49	1788.20
North America (11)	1440.61	-6.7	1461.92	23.95	55.65	0.78	1911.21	1348.18

Copyright, The Financial Times Limited 1995.
Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Predecessor Gold Mines Index: Feb 24 : 198.3; week's change: -1.4 points; Year ago: 207.8.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994/95 High	1994/95 Low	Stock	Close price p	+/-	Net div.	Dv. cov.	Grs yld	P/E net
§10	F.P.	17.1	13 1/4	13	Bath Press	13		-	-	-	-
§125	F.P.	21.1	131	128	GET Group	128		N-	-	-	11.1
-	F.P.	22.4	87	85	Inv Tst of Inv Tsts	86		-	-	-	-
-	F.P.	2.98	59	57	Do. Warrants	57		-	-	-	-
-	F.P.	25.8	55	48 1/4	Lazard Birla India	49 1/4	+1	-	-	-	-
-	F.P.	3.09	32 1/2	28	Do Warrants	29 1/4	+1 1/2	-	-	-	-
35	F.P.	22.1	38	34	MCIT S Cap	34		-	-	-	-
35	P.P.	23.4	36	36	MCIT S Inc	36		-	-	-	-
-	F.P.	17.0	130	70	Pentex Oil	85	+13	-	-	-	-
150	F.P.	16.1	160	150	Photobition	156		RN6.0	2.0	4.8	11.3
-	F.P.	4.40	11 1/4	10 1/2	Wessex Trust	11		-	-	-	-

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994/95 High	1994/95 Low	Stock	Closing price p	+or-
225	Nil	27/3	28pm	12pm	BTP	24pm	+5
10	Nil	3/3	3 1/4pm	3pm	Bath Press	3pm	
-	P.P.	27/2	186pm	165pm	Cadbury Schws Cv Ln	185pm	+4
57	Nil	29/3	22pm	13pm	Euro Colour	20pm	+1
110	Nil	-	1pm	1/4pm	Natl. Home Lns.	1/4pm	
90	Nil	15/3	4pm	2pm	‡Shorco	2pm	

UK INTEREST RATES

LONDON MONEY RATES

Feb 24	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 4 3/4	6 1/8 - 5 3/4	6 9/16 - 6 7/16	6 13/16 - 6 13/16	7 1/8 - 7	7 13/16 - 7 13/16
Sterling CDs	-	-	6 15/32 - 6 11/32	6 11/16 - 6 5/8	7 1/16 - 6 15/16	7 9/16 - 7 7/16
Treasury Bills	-	-	6 3/8 - 6 1/4	6 1/2 - 6 7/16	-	-
Bank Bills	-	-	6 3/8 - 6 5/16	6 9/16 - 6 1/2	6 15/16 - 6 3/4	-
Local authority deps.	6 3/16 - 6 1/16	6 1/8 - 6	6 7/16 - 6 5/16	6 3/4 - 6 5/8	7 1/16 - 6 15/16	7 11/16 - 7 9/16
Discount Market deps	6 - 4	6 3/16 - 6 1/16	-	-	-	-

UK clearing bank base lending rate 6 3/4 per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5 3/4	5 3/4	6	6 1/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount 6.1884pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 31, 1995. Agreed rate for period Feb 26, 1995 to Mar 25, 1995, Schemes II & III 7.87pc. Reference rate for period Dec 31, 1994 to Jan 31, 1995, Schemes IV & V 6.824pc. Finance House Base Rate 7pc from Feb 1, 1995

BANK OF ENGLAND TREASURY BILL TENDER

	Feb 24	Feb 17		Feb 25	Feb 17
Bills on offer	£700m	£700m	Top accepted rate	6.1969%	6.1769%
Total of applications	£3350m	£3299m	Ave. rate of discount	6.1884%	6.1553%
Total allocated	£700m	£700m	Average yield	6.2853%	6.2512%
Min. accepted bid	£98.455	£98.460	Offer at next tender	£700m	£700m
Allotment at min. level	96%	8%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday February 22, 1995	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	910,029,966	-291,854,039
Bankers deposits	1,531,338,881	-281,218,109
Reserve and other accounts	3,237,322,479	+140,844,373
	5,693,244,326	-432,227,775
Assets		
Government securities	[illegible]	[illegible]
Advance and other accounts	[illegible]	[illegible]
Premises, equipment and other secs	[illegible]	[illegible]
Notes	[illegible]	[illegible]
Coin	[illegible]	
	5,693,244,326	-432,227,775
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	[illegible]	[illegible]
Notes in Banking Department	[illegible]	[illegible]
	18,120,000,000	+50,000,000
Assets		
Other Government securities	[illegible]	[illegible]
Other Securities	[illegible]	[illegible]
	18,120,000,000	+50,000,000

BASE LENDING RATES

Adam & Company ... 6.75
Duncan Lawrie ... 6.75
*Roxburghe Guarantee Corporation Ltd is no longer authorised as a banking institution.
[illegible]

● Members of London Investment Banking Association
* In administration

UK GILTS PRICES

[illegible]

STOCK INDICES

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda
UK: Prof Advisers 0800 414181 — Jersey: 01534 71696
Private Clients 0800 414161 — 00 352 250404230
From O'seas (44) 1732 777377 — Hong Kong (852) 848 1000

Prices for dealing February 24

Jupiter Tyndall (Bermuda) Ltd

Orion Fund Limited

GUERNSEY (SIB RECOGNISED)

Lazard Fund Mngrs - Contd.
Lazard Select Investment Trust Ltd

Lloyds Intl Money Market Fund Ltd
Sarnia Hse, Le Truchot, St Peter Port — 01481 724983
Lloyds Bank Fund Managers (Guernsey) Ltd

Dealing daily

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port — 01481 722683

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey — 01481 726265
Prudential Money Funds Ltd

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey — 01481 713713

Royal Bk of Canada O/S Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd
Apollo Investment Management Ltd
Arab Bank Fund Managers (Guernsey) Ltd
Bachmann Global Investment Fund Ltd
CIBC Fund Managers (Guernsey) Ltd
Guinness Flight Fd Mngrs (Guernsey) Ltd
Hambros Fund Managers (CI) Ltd
Hewlett Throgmorton Mngmt Ltd
IPS (Guernsey) Ltd
Kleinwort Benson Intl Fd Mngrs Ltd
Lazard Fund Managers (CI) Ltd
Lazard Freres Asset Management (CI) Ltd
Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey
Nikko Capital Mngt (Europe) Ltd
Rothschild Asset Mngmt (CI) Ltd
Sandi International
Schroder Investment Management (Guernsey) Ltd
UBK Asset Management (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

BT Fund Managers (Ireland) Ltd

The Fiduciary Trust Global Fund

IRELAND (REGULATED)(**)

AIB Fund Management Ltd
Baring International Fd Mngrs (Ireland) Ltd
Berkeley Korea Fund Plc
Dynamic Pacific Portfolio Fund Plc
Frank Russell Investments (Ireland) Ltd
Global Resources Stock Fund
Korea Growth Fund Plc
Korea Ltd Fund Plc
Morgan Grenfell Fund Managers

Stager & Friedlander Inv Funds Ltd - Contd.
Scottish Amicable European Investment

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs
Allied Dunbar Intl Fund Mngrs
Ashburton Global Funds Ltd
Mercury Fund Managers Intl Ltd

ISLE OF MAN (REGULATED)(**)

ATC Fund Management Ltd
AXA Equity & Law Intl Fund Mngrs
City Financial Admin (IoM) Ltd
Duncan Lawrie Inv. Mgt. Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd
Barclays International Funds
Capital House Fund Mgrs (CI) Ltd

JERSEY (REGULATED)(**)

Barclays Intl Funds

Citibank (CI) Ltd "Citifunds"
Fleming Group
Lloyds Private Banking (CI) Ltd
Lombard Odier (Jersey) Ltd
Royal Bank of Canada Intl Fd Mgt Ltd
Schroder Fund Managers (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds

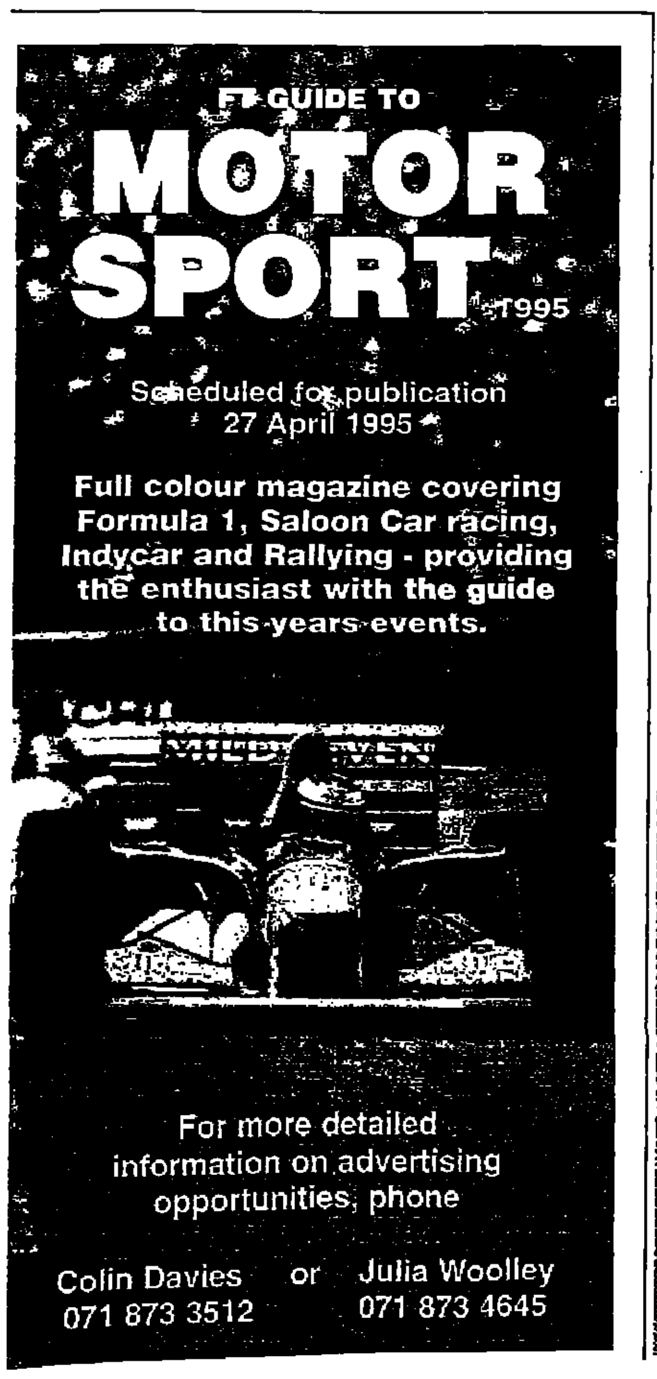
Commercial Union Luxembourg SA - Contd.
Fleming Group

Lloyds Bank Luxembourg

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund

Alliance Capital



صكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols.
(♥) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(♣) - 1401 to 1700 hours
(♠) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
x - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
z - Offered price includes all expenses except agent's commission.
y - Previous day's price.
§§ - Guernsey gross.
ϕ - Yield before Jersey tax.
† - Ex-subdivision.
‡ - Only available to charitable bodies.
⊕ - Yield column shows annualised rates of NAV increase.
xd - Ex-dividend

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		98	—	8%	–	Jun Dec	14.11	1707
9¾pc Non-Cum Prf		118	0.2	9¾%	–	Jan Jul	14.11	1423
Cater Allen	♣†N□	488	—	28.3	1.6	Jan Jul	12.12	2087
Close Bros	♣N□	333	-4	7.5	2.9	Apr Oct	3.10	2169
Gerrard & Nat	♣†N□	488	—	24.0	1.3	Jul Dec	7.11	2888
Hambros	♣N□	233	1.3	15.0	1.1	Aug Dec	28.11	2812
7½pc Cv Pf		101½xd	-4.7	7½%	–	Oct Apr	20.2	4385
Joseph (L)	♣†N	383	—	17.85	1.9	Sep Dec	3.12	3869
King & Shaxson	♣N	97	—	9.0	1.1	Jan Jul	19.12	3888
Kleinwort Benson	♣N□	628	-.5	21.9	2.1	May Oct	15.8	3102
Rea Bros	♣†N□	82	—	0.95	3.2	May Oct	29.8	3765
Schroders	♣†N□	1513	-.8	18.5	5.9	May Oct	12.9	3939
N/V	†N	1365	-.7	18.5	5.9	May Oct	12.9	3941
Singer & Fried	♣†N□	83	-2.4	3.13	2.6	Nov Jun	19.9	4028
Union	♣†N□	84	-3.4	4.8	3.5	Mar Oct	29.8	4363
Warburg (SG)	♣N□	718	-1.1	22.0	2.4	Jul Dec	14.11	4486
Wintrust	♣†N	220xd	-1.9	10.6	1.5	Oct Mar	20.2	4824

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	122½	2.2	Q61%	2.3	Sep May	9'93	–
ANZ A$		217	3.3	Q26c	2.4	Jan	12'93	–
Abbey National	†N□	447	2.5	16.55	2.1	May Oct	15.8	6411
Allied Irish £	♣N□	276xd	0.9	Q57.1%	2.7	Oct Apr	20.2	1354
Anglo Irish I£	N□	51	—	Q7.8%	1.8	Jan Jul	28.11	1355
Asahi Y	□	728¼	-2.7	Q14%	1.3	Jan Dec	12'92	3849
Banco Bil Viz Pts	□	216¾	-.3	Q27.2%	2.7	JyDeJaAp	7'93	–
Banco Sant Pts		224½	-.5	Q38%	2.0	MyAuOcJa	1.8	–
Bk Ireland I£	†N□	308	0.3	Q14.7%	3.2	Jan Jul	21.11	1380
Bank Scotland	♣†N□	201	-2.9	6.31	3.3	Jul Dec	17.10	1742
9¼pc Pf		118¾	-.4	9¼%	–	May Nov	17.10	1482
9¾pc Pf		124	-.2	9¾%	–	May Nov	17.10	1485

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

صكنا من الاجل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

	Notes	Price	Wk % ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
Approved by the Inland Revenue								
Aberforth Split Inc	N	88xd	—	6.48	MrJuSeDe	27.3	30.1	3002
Cap		164	—	–	–	50.9	–	3005
Units	N	252xd	—	9.45	MrJuSeDe	78.1	30.1	3006
Abtrust Prf Inc	♣N☐	100	—	12.0	JaApJuNv	19.8	3.1	3197
Zero Div Pf		165½	—	–	–	19.9	–	3197
Archimedes Inc	N	232	—	28.5	Feb Aug	2.84	9.1	1638
Cap		388	–.5	–	–	4.88	–	1637
City of Oxford	♣N☐	30½xd	—	5.0	FeJaAuNv	9.15	30.1	3572
Warrants		6	—	–	–	0.96	–	3332
Zero Div Pf		99½	–.5	–	–	28.1	–	3571
Contra-Cycl Inc	♣N	58xd	—	9.5	FeJaAuNv	4.64	30.1	2874
Cap	☐	19½	–2.5	–	–	4.15	–	2877
Zero Div Pf		85	—	–	–	11.3	–	2882
Danae Inc	♣N	76xd	–1.3	7.85	Feb Aug	5.54	3.1	2306
Cap		33	–2.9	–	–	2.41	–	2307
Derby Inc	HN	166xd	0.6	16.08	Aug Feb	18.4	30.1	2340
Cap		293	–2.3	–	–	44.9	–	2339
Drayton Blue Chip	♣N☐	58	—	6.4	Jan Jul	7.33	5.12	2883
Zero Pf		162	—	–	–	20.5	–	2707
Edinburgh Income	♣N☐	48	—	4.6	JaApJuOc	6.90	5.12	2920
Zero Div Pf		62	0.4	–	–	9.30	–	2924
Exmoor Dual	♣N	34	—	1.89	Dec	1.80	31.10	5234
Inc	N	82xd	–0.1	9.65	MrJySeDe	4.65	23.1	5235
Zero Cpn Pf		244	—	–	–	11.0	–	5236
Finsbury Smlr Co's	♣N	159xd	—	3.4	Mar Sep	25.7	5.12	3129
Zero Pf		191½	0.3	–	–	9.20	–	2835
Fleming Geared Inc	♣♣N	188xd	–.6	2.0	Feb Sep	25.9	23.1	3824
Warrants		114	–2.5	–	–	2.83	–	3826
Cm Ptg Pf		158	–.3	12.6	May Nov	24.3	17.10	–
Fleming I & C Inc	♣N☐	72½xd	–.7	4.9	MrMyAuNv	68.9	23.1	1186
Units	N☐	118xd	–.4	4.9	MrMyAuNv	104.1	23.1	1177
Zero Div Pf		48¾	—	–	–	43.1	–	1184
Fleming Int High	♣N☐	38xd	–3.2	3.57	Sep Feb	22.2	23.1	2880
Zero Div Pf		103	0.2	–	–	76.7	–	6816
For & Col Sml Sp Inc	♣N☐	61½	—	3.74	Jan Oct	30.8	28.11	–
Capital	☐	93½	0.8	–	–	31.8	–	–
Units	N☐	134	—	3.74	Jan Oct	62.6	28.11	–
Friends Prov Ethical	♣N☐	[illegible]	–4.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

INVESTMENT COMPANIES - Cont.

[illegible]

Net asset values supplied by Bradford Securities Limited as a guide only. See guide to London Share Service

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

	Notes	Price	Wk % ch'nge	Div gross	Dividends paid	Last xd	City line
Toronto-Dom		9¼	–.5	88c	JaApJyOc	12.12	1207
Trans Can Pipe	♥	8¾	1.3	84c	JaApJyOc	12'93	–

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£29	—	0375c	1.9	Oct Apr	3'93	–
Barlow	♣	551½	2.3	058c	2.8	Jan Jul	12.12	–
Gold Flds Prop R		143xd	–.7	060c	♦	Feb Sep	1'94	–
NK Props		85	—	087.1c	–	Feb Sep	10'93	–
SASOL	♥	477	–1.4	078c	–	Oct	9'93	–
SA Brews	†	£14½	1.7	0163c	2.2	Jun Dec	21.11	–
Tiger Oats		725	—	085c	2.8	Jan Jul	12.12	–
Tongaat-Hulett	†n	762	—	086c	2.4	Feb Aug	1'94	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
♦ Figures or report awaited
♥ *Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.*
♣ Free annual/interim report available, see details below
✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
# *Price at time of suspension*
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ *Unregulated collective investment scheme.*

a Annualised dividend. b Figures based on prospectus or other official estimates. *c Cents.* f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment: Cover does not apply to special payment. *F Dividend based on prospectus or other official estimates for 1994-95.* G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on *prospectus or other* official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Figures based on IMR "Headline Earnings". *P Figures based on prospectus or other official estimates for 1994.* Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each *security shown, subject to the Editor's discretion*

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: *Avocet Ventures* (Ext. Inds.), *Matheson Lloyds Inv. Tst.* Ord and Warrants (Inv. Tsts.), Caledonian *Media* Warrants (Media) and Woodchester Units (Other Fin.). Deletions: Ericsson (El. & El. Eq.), *Western Areas* (Ext. Inds.) *and Woodchester* (Other Fin.).

FT Free Annual Reports Service

You can obtain the current annual/interim report of any *company annotated with ♣. Please quote* the code FT7351. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to *availability.*

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed *after the share price. Calls charged at* 39p per minute cheap rate and 49p per minute at all other times.

An International service is available for callers outside the UK, annual subscription £250 stg.

Call 0171-873 4378 (+44 171 873 4378, International) for more information on FT Cityline.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close February 24

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14¼	13	AAR	0.48	3.5	34	35	13⅝	13⅝	13⅝	-⅛
22⅛	19¾	ALPharmaA	0.18	0.9	46	77	20½	20¼	20½	
76⅛	70⅛	AMP	1.84	2.4	21	824	u76⅞	75⅝	76	+⅞
62¼	53⅞	AMR			27	4637	61¾	61⅛	61¾	
46½	41⅞	ASA	1.71	3.8	23	628	44⅝	43⅞	44⅝	-⅛
38	30¾	AbbotL	0.84	2.3	19	6525	35¾	35⅛	35¾	+⅜
14	13	AbitbiPr	0.50	3.7	12	150	13½	13½	13½	
24⅞	22⅛	ABM Ind	0.60	2.6	13	18	22⅞	22¾	22⅞	+¼
16⅝	14½	Acplincoln			11	993	15½	15	15½	-⅜
25⅞	21⅞	ACE Ltd	0.44	1.8	8	508	25	24½	24⅞	
9¾	9⅛	ACM Gvt In	0.90	9.6	8	961	9⅜	9¼	9⅜	+¼
7½	7⅛	ACM GvOpp	0.66	9.1		157	7⅜	d7⅛	7¼	
7½	6⅝	ACM Gvt Sp	0.75	11.1		472	6⅞	d6⅝	6¾	
8⅝	7⅞	ACM Gvt Se	0.90	11.2		530	8⅛	8	8	
8½	7⅝	ACM Man	1.08	13.5		444	8	7⅞	8	+⅛
7⅝	7¼	ACM Managd	0.72	9.6		27	7½	7⅜	7½	
16⅛	10¼	AcmeCv	0.48	3.2	8	9	15	15	15	-⅛
21½	12⅞	Acme Elect			20	345	18¼	17¾	18¼	
34½	31⅜	Acordia	0.72	2.2	16	38	32½	32	32⅜	+¼
11⅞	8⅝	Actava	0.36	3.5	3	82	10⅜	10¼	10⅜	
18¾	12⅞	Acuson			20	941	12⅞	d12⅜	12⅝	+⅛
16⅝	15⅝	Adams Expr x	0.36	2.2	0	128	16¼	16	16¼	+¼
64½	53	Ad Micro	3.00	5.1		73	58¾	57¾	58¾	
32¼	25	AdvMic	3.00	10.1	8	5898	29¾	29	29¾	+⅛

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
42¼	36¼	Barnes Grp	1.60	3.9	12	165	41⅛	41¼	41⅛	-½
44⅞	38¼	BarnBk	1.64	3.7	9	1132	44¾	44¼	44⅜	-¼
22¾	19¾	BrckGd	0.10	0.5	26	9945	22	21½	21¾	-⅛
10⅞	8⅞	BattMt	0.05	0.5	475	3880	9¾	9⅜	9½	-¼
35⅞	30⅞	Bausch	0.98	3.0	141	4927	33⅛	32⅜	32⅝	-½
31⅝	26¾	Baxter	1.05	3.3	14	4916	31½	31¼	31½	+⅛
24¾	22¼	Bay St Gas	1.48	6.0	14	36	24½	24	24½	+½
20⅝	19	Bd Tr 1638	1.72	8.3		10	u20⅝	20½	20⅝	+⅛
19	15⅜	Bear Stns	0.60	3.2	12	940	18⅞	18⅝	18¾	-⅛
43¾	40⅜	BearStPfA	3.25	7.8		12	41½	d40¾	41½	
34	28⅜	Bearings	0.72	2.5	14	59	28⅞	d28¼	28¾	-¼
31½	27	Beckman In	0.44	1.4	18	115	30⅞	30⅝	30¾	
52⅞	48	BectnD	0.82	1.6	16	1090	52¾	52¼	52¾	+¾
5⅞	5⅜	BedPr	0.38	6.3	11	51	u6	5⅞	6	
55¾	48⅜	BellAtl	2.76	5.1	16	2425	54⅛	53½	54⅛	+½
22¾	20¼	Bell In	0.40	1.9	12	301	21⅜	21⅛	21¼	-⅛

Continued on next page

صحكنا من الاجل

4 pm close February 24

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close February 24

AMEX COMPOSITE PRICES

4 pm close February 24

FT GUIDE TO THE WEEK

MONDAY 27

Gore visits Nato HQ

US Vice-President Al Gore visits Nato headquarters in Brussels at a time of intensifying debate over enlargement and pressure on the organisation's secretary-general, Willy Claes, to say how much he knew about payments to the Belgian socialist party by an Italian arms company in 1988. Mr Claes was then Belgium's economic affairs minister.

Polish government crisis

Poland's prime minister designate Jozef Oleksy meets President Lech Walesa to ask for his non-binding opinion of the composition of the country's next cabinet.

Next, on Wednesday, the two governing coalition partners, Mr Oleksy's Left Democratic Alliance (SLD) and the Peasant Party (PSL) have agreed to vote out Waldemar Pawlak, the present incumbent and PSL leader, and vote Mr Oleksy into office. Parliamentary approval for the cabinet should follow on Friday.

Canada attacks its deficit

Finance minister Paul Martin tables his budget in Parliament. He is expected to reaffirm his promise to bring the federal deficit down from C$39.7bn (US$28.3bn) in the year to March 31 1995, to about C$25bn, or 3 per cent of GDP, in 1996-97. Earlier this month, Moody's, the US credit rating agency, put Canada's foreign and domestic debt under review for a possible downgrade. If the budget does not come up with the goods, the Canadian dollar will also be vulnerable.

Russo-British relations

Viktor Chernomyrdin, Russia's prime minister (left), visits London for talks with senior government figures at a sensitive time, with the Chechen war and the proposed eastwards expansion of Nato straining east-west relations. Other topics for discussion are the progress of economic reform in Russia and a possible $6.25bn loan from the International Monetary Fund.

Carnival in Brazil

Brazil closes down for Carnival. Celebrations got under way at the weekend, and do not officially stop until Wednesday when (some) Brazilians wearily return to work. The biggest parties are in Rio de Janeiro, which Brazilians claim is the world's largest festival, and in the coastal cities of Recife and Salvador.

Holidays

Bolivia, Brazil, parts of Germany, Panama, Uruguay, Venezuela (Carnival); India, Sri Lanka.

UK anti-blood sports groups hope for a public relations coup when a bill to ban hunting with dogs gets its second reading on Friday

TUESDAY 28

European parliament session

A three-day mini-session begins in Brussels. The most important event comes on Thursday, when Jacques Santer, Commission president, makes a statement on relations with central and eastern Europe, followed by a debate. A Commission study is expected in May on how the the six associate members in the region should adapt to the single market.

Herzog visits Albania

Germany's president, Roman Herzog, starts a two-day visit to Albania, the first by a German head of state. The trip is expected to boost the flagging popularity of Albania's president, Sali Berisha. The German government has provided substantial aid to Albania, including hospital and water projects.

Castles in Spain

Gary Kasparov and Anatoly Karpov renew their rivalry at the world's strongest annual chess tournament in Linares, southern Spain (to March 18). The supporting cast includes Britain's Nigel Short and Michael Adams, and 18-year-old Judit Polgar of Hungary, the world's best-ever female player.

Holidays

Bolivia, Brazil, parts of Germany, Panama, Portugal, Uruguay, Venezuela (Carnival); Pakistan.

WEDNESDAY 1

Major faces important vote

The UK government faces a possible defeat in the House of Commons in a debate on European policy initiated by the opposition Labour party. Amid continuing controversy over the government's policies on Europe and Ireland, Ulster Unionists and some Tory Euro-rebels may abandon support for John Major's administration. Defeat would probably lead to a "no confidence" motion.

Lloyd's seeks settlement

Lloyd's of London's chief executive, Peter Middleton, will report to the ruling council on prospects for an out-of-court settlement with Names, individuals whose assets have traditionally supported the insurance market. The meeting will also discuss Equitas, the jumbo reinsurance company Lloyd's wants to set up to take over responsibility for its so-called "old years" problem – the billions outstanding from US asbestosis and pollution claims on policies dating from the 1940s.

Kozyrev in China

Andrei Kozyrev, Russia's foreign minister, flies to Beijing. Relations, which were extremely frosty for many years, have begun to thaw following a visit of senior Chinese leaders to Moscow last year. Trade has been expanding fast, although some minor border disputes remain.

Budget day in Singapore

Richard Hu, finance minister, has problems his counterparts around the world can only dream about. The economy grew by 10 per cent last year and there are expectations of a fivefold jump in the republic's surplus. But the government does not want to give away too much in the way of tax cuts for fear of overheating.

Hong Kong boosts spending

The government is proposing to increase spending in its budget today on education, crime prevention and the environment. Total expenditure for the financial year will rise to HK$169.7bn (US$22bn), with the year-on-year increase in line with the growth rate of 5 per cent in real terms.

Trade union conference

The International Confederation of Free Trade Unions begins a conference (to March 3) in Copenhagen to discuss global development, unemployment and social exclusion ahead of the United Nation's World Summit for Social Development, due to begin on March 6.

Sweden takes the lead

Sweden will become one of the first countries in the world to phase out leaded petrol when a formal ban takes effect today. Petrol for cars without catalytic converters will still be available, but with the lead replaced by other compounds.

FT Survey

Review of Information Technology.

Holidays

Bahrain, Brazil (Carnival), Egypt, India, Indonesia, Kenya, Kuwait, Lebanon, Morocco, Nigeria, Pakistan, Panama, Paraguay (Heroes' Day), South Korea (Independence Day).

Wales and the Welsh celebrate St David's Day.

THURSDAY 2

Kozyrev visits Japan

Russia's foreign minister, Andrei Kozyrev, begins a three-day visit to Japan to meet his Japanese counterpart Yohei Kono. They will discuss bilateral matters, including the ownership of four islands in the Kurile chain, off northern Japan, occupied by Russia at the end of the second world war. The dispute has prevented the two from signing a peace treaty and leaves Japan as the only G7 country yet to normalise relations with post-cold war Russia. Little or no progress is expected.

Kim comes to Europe

South Korean President Kim Young-sam will begin his first European trip, a 15-day, six-nation tour, to promote business ties and attend the UN conference on social development in Copenhagen. Other stops include France, Germany, the Czech Republic and Poland, and the UK, most of whose leaders have visited Korea in the two years since Mr Kim became president.

Van den Broek in Slovenia

Hans van den Broek (left), European Union commissioner for relations with eastern Europe and the Commonwealth of Independent States, visits Ljubljana, the capital of Slovenia. His two-day trip will indicate that the tiny Alpine republic is ready for EU associate membership.

Second round for Costis

Greece's parliament holds a second vote on a head of state to succeed President Constantine Karamanlis. Costis Stefanopoulos, a conservative former cabinet minister backed by the governing Panhellenic Socialist Movement, is again expected to finish well ahead of the conservative candidate, Athansios Tsaldaris, but without winning the two-thirds majority required. Mr Stefanopoulos should scrape home on the third ballot when only a three-fifths majority is needed.

End of Ramadan

King Fahd of Saudi Arabia has decreed an amnesty of some 6,000 prisoners to mark the feast of Eid al Fitr, the end of the Ramadan month of fasting for Moslems.

Holidays

Bahrain, Cameroon, Egypt, Georgia, Indonesia, Ivory coast, Kenya, Kuwait, Lebanon, Morocco, Nigeria, Pakistan, Saudi Arabia, Syria, Tunisia, Turkey.

FRIDAY 3

Fatah leaders meet in Tunis

The leadership of Fatah, the PLO's mainstream faction, meets in Tunis to discuss the faltering peace process with Israel. They will also assess the plan, launched by the PLO's executive committee in an emergency session in Cairo, to increase Arab and international support. Fatah will most certainly address the growing rifts among its own ranks and within the PLO.

BoJ releases Tankan survey

The Bank of Japan is due to release its Tankan quarterly survey of business conditions, the most authoritative indicator of the short-term outlook. Conducted in February, it will give the first real evidence of how the Kobe earthquake has affected the economy.

Move to outlaw hunting

The Wild Mammals (Protection) Bill has a second reading in the UK's House of Commons, and could eventually outlaw fox-hunting and other blood sports. But, as a private member's bill, it cannot become law unless the government provides for a third reading in its legislative programme. Supporters hope to score a public relations coup by securing a majority.

Holidays

Bahrain, Bulgaria, Cameroon, Egypt, Indonesia, Kenya, Kuwait, Lebanon, Malaysia, Morocco, Nigeria, Pakistan, Singapore, Sri Lanka, Tunisia, Turkey.

SATURDAY 4

Rugby Union

In the Five Nations' championship, Ireland play at home to France at Lansdowne Road, Dublin, while a resurgent Scotland meet Wales at Murrayfield, Edinburgh, after their surprise win against France in Paris.

SUNDAY 5

Estonia elects parliament

The current centre-right Fatherland coalition has overseen an impressive economic renaissance marked by an export boom, low inflation and a stable currency unmatched in any other former Soviet republic. The Moderates remain popular, but not among pensioners and farmers hurt by the government's commitment to a balanced budget and open borders.

The Centre Party, led by the ex-Communist prime minister, and a Russian grouping are unknown quantities. An electoral reversal threatens Estonia's commitment to radical reform.

Referendum in Moldavia

The Christian Turks of Moldova's Gagauz region vote in a referendum on an autonomy deal struck in Kishniev, Moldova's capital. The former Soviet republic, which before the second world war belonged to Romania, also faces pressure for autonomy from the large Russian minority concentrated in the Trans-Dnestr region.

Compiled by Patrick Stiles.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: With financial markets jittery after last week's release of preliminary figures for consumer prices in Italy's cities during February, this week's December producer price index and wholesale price index should show that prices have been on the rise nationally for a few months.

Wednesday: The UK's February purchasing managers' index is expected to rebound from January's low on the back of a buoyant Confederation of British Industry survey. Recent weakness in commodities may prompt a decline in the prices component.

Thursday: Figures showing personal income and consumption in the US during January may give further insight into the state of retail demand and possible inflationary pressures. The savings ratio is expected to rise to its highest level since October 1992.

Friday: Japan's consumer price indices are published. The Economic Planning Agency has indicated that the short-term inflationary effect of the Kobe earthquake has been minimal.

Consumer credit figures in the UK are expected to have declined in January, in line with weaker retail sales.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Overall pers consumer expend**	-	-2.5%
Feb 27	Japan	Pers consumer expend work ers**	-	-0.3%
	Japan	Dec income - workers**	-	-0.8%
	Japan	Jan supermarket sales**	-	-1.3%
	Japan	Jan retail sales**	-4.5%	-2.0%
	Japan	Dec producer price index**	5.2%	4.8%
	Japan	Dec wholesale price index**	5.0%	4.6%
Tues	US	Jan existing homes sales	-	3.89m
Feb 28	US	Feb consumer confidence	101	102.1
	US	Feb Chicago NAPM†	-	63%
	US	Feb agriculture prices	-	1%
	Japan	Unemployment rate	-	2.8%
	Japan	Jan Job offer/seek ratio	-	0.64
	Japan	Jan industial production†	-0.3%	-0.4%
	UK	M0 Feb*	-	0.6%
	UK	M0 Feb**		6.8%
	Canada	Jan Cons pric indx – all item*	0.2%	0.2%
	Canada	Jan Cons pric indx – all item**	0.4%	0.2%
Wed	US	4th qtr gross dom product prelim	4.5%	4.5%
Mar 1	US	4th qtr GDP deflator prelim	1.6%	1.6%
	US	Jan construction spending	-	1.1%
	US	Feb domestic auto sales	7.2m	7m
	France	Jan unemployment rate	12.6%	12.6%
	Canada	4th qtr real goss domest prod***	4.9%	4.7%
	Canada	4th qtr consumption***	3.7%	2.6%
Mar 1	Canada	4th qtr current account***	C$-16bn	C$-20.5bn
Thur	US	Initial claims w/e Feb 25	340,000	394,000
Mar 2	US	State benefits w/e Feb 18	-	2.54m
	US	Jan personal income	0.8%	0.8%
	US	Jan pers cons expend	0.3%	0.3%
	US	Jan new home sales	625,000	637,000
	US	M1 w/e Feb 20	$-1.5bn	$-3.7bn
	US	M2 w/e Feb 20	$-3bn	$-4.5bn
	US	M3 w/e Feb 20	$-2.5bn	$-0.2bn
	UK	Feb official reserves	$-40m	$-11m
Fri	US	Factory orders	0.4%	1.7%
Mar 3	US	Jan export price index	-	0.7%
	US	Jan import price index	-	-0.2%
	Japan	Feb cons pric indx Tokyo**	0.3%	0.5%
	Japan	Feb CPI ex-perishable Tokyo**	0.3%	0.3%
	UK	Jan consumer credit	£670m	£865m
	Italy	Feb off cons pric indx*	0.7%	0.4%
During the week...				
	Germany	Feb prelim cost of living*	0.3%	0.5%
	Germany	Feb prelim cost of living**	2.3%	2.3%
	Germany	Dec trade balance	DM7.7bn	DM8.5bn
	Germany	Dec current account	DM-2.3bn	DM0.5bn
	Italy	Jan M2 3-month average	2.9%	3%
	Denmark	Jan unemployment rate	-	10.9%

*month on month, **year on year, ***qtr on qtr, ‡ seas adj *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

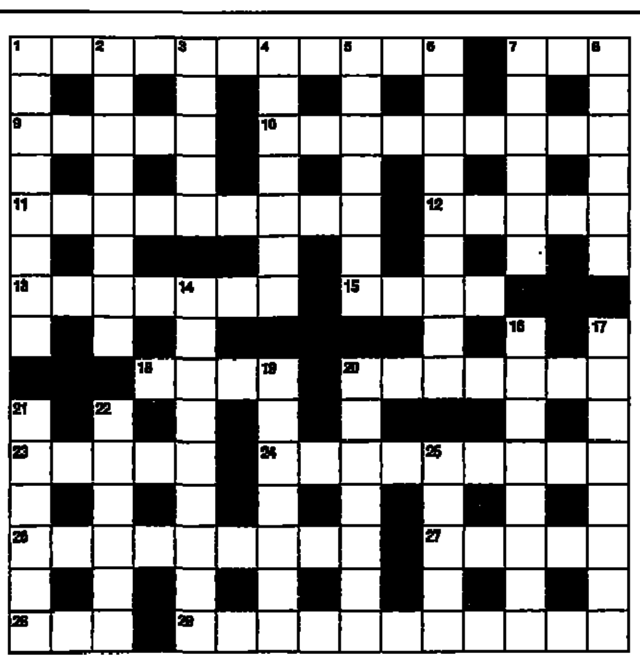
No.8,697 Set by DANTE

ACROSS

1 I called cops out for minor offences (11)
7 Deep container of salt (3)
9 Love to run the eye over a mountain nymph (5)
10 Plenty of refreshment available during a ball (9)
11 At risk when making a call (2,3,4)
12 The evening wear that turns heads? (5)
13 Girl meets boy carrying eastern cloth (7)
15 Such pretence is little short of a disgrace (4)
18 Boast about dress (4)
20 What old scholars often dipped into (7)
23 Kill a doctor and confess (5)
24 For a musician who's caught the spirit? (5,4)
26 It's up to Prior to provide a collection of herbs (9)
27 It may be called for as the situation changes (5)
28 A number of the best (8)
29 Not the best form of travel (6-5)

DOWN

1 Put the case for sterling (8)
2 Cribbing, eight can be in trouble (8)
3 Clergyman in drink is confused (5)
4 I managed to name a Persian (7)
5 Bays of victory (7)
6 Divert from the by-way (4-5)
7 Sombre at first and dark, but not in shadow (6)
8 Maintains a point, though opposed to it (6)
14 Wrong, or sure one is wrong (9)
16 American state banks are to be reorganised (9)
17 Are they artisans of some depth? (8)
19 Trouble starts with bad cigars affecting the stomach (7)
20 I adopt a Latin form of language (7)
21 Takes over a commercial spot, perhaps (6)
22 Eddy tore out between five and ten (6)
25 Moral principle held by the thick-skinned (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday March 9, marked Monday Crossword 8,697 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 13. Please allow 21 days for delivery of prizes.

Name..

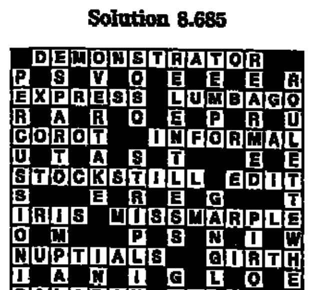
Address..

....

Winners 8,685

M.G. Price, London NW7
J. Anslow, Worplesdon, Surrey
S.H. Dodd, Sheffield
J.P. Flannery, Cheadle Hulme, Cheshire
G. Kirby, Barnet, Herts
Mrs Sally Wilson, Boulogne sur Seine, France

Solution 8,685



JOTTER PAD

مكبر من الاصل